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## China's Policy Towards Far Eastern Countries

Popular diplomacy is a process whereby a Communist government seeks to influence public opinion in free countries by promoting direct unofficial contact between citizens of those countries and selected groups of its own adherents. This promotion of contact takes place to some extent through the sending of visitors and delegations on missions abroad but principally through attracting foreigners for guided tours. The two-way process is complemented by a steady outflow of propaganda directed abroad, and occasionally a variation occurs when a prominent leader of a Communist country undertakes an exercise of popular diplomacy himself, seeking to make a personal impact on foreign public opinion by sensational declarations, or by touring a foreign country in a demagogic fashion. Over the past few years the Soviet Premier Khrushchev has attempted popular diplomacy along each of these lines and in late 1956 the Chinese Communist Premier Chou En-lai undertook such diplomacy during a tour of South-East Asia. More recently the North Vietnam President Ho Chi Minh endeavoured to conduct this type of diplomacy while visiting India and Burma.

Popular diplomacy is intended to influence free world public opinion by gaining prestige for the Communist countries and approval of their foreign policies, so that indirect leverage may be exercised against free world governments and new supporters gained for local Communist movements. The ideas presented through popular diplomacy are simple and general, so as to have the broadest appeal, and the basic lesson propounded is the necessity for "peaceful co-existence" between Communist and non-Communist countries. The visitor to a Communist regime is shown evidence of popular support for the Communist government, of extensive economic and social progress, and of strong popular desires for "peace;" all this counters his realization of the imperialistic nature of Communism, while on the other hand all the order and discipline which he observes in the Communist country make it appear impregnable. Woven in with these impressions is the theme that peaceful co-

existence is the only alternative to nuclear war and that it is a genuine alternative because the Communist powers are not aggressive.

The conduct of popular diplomacy towards the free countries of the Far East and South-East Asia has been undertaken principally by Communist China. The Chinese Communist regime, on account of its progress towards the status of a great power, its novel character as something of an Asian counterpart of the USSR, and its undeserved reputation as an exponent of a mellow, tolerant, cultured and "Asian" type of communism, has been able to exploit the curiosity and stimulate the opportunism of many people in the free countries of Asia. It has attracted increasing numbers of visitors, on a basis of careful selection but with much variety of status, occupation and political affiliation. The regime, by imposing strict conformity on its population, is able to place on more or less continuous display cities, industrial centres, farms, villages, and developmental projects with the assurance that all the Chinese at these locations will continue to exhibit complete and enthusiastic fidelity to the Communist pattern of life and also with the assurance that thanks to the language barrier intellectual exchange between these Chinese and visiting foreigners will be controlled through interpreters.

The average annual total of visitors to Communist China from the free world is about 5,000. This is a very small figure in comparison with normal tourist travel to any of the major countries in the free world, but the propaganda value of these visitors is often extremely great on account of the favourable comments made by many on their return. These comments usually receive considerable publicity because of their news value as reports on what is largely a forbidden kingdom and because a high proportion of the visitors are professional persons with an ability to impress public opinion. Where a visitor has been in Communist China in an official capacity, his status naturally lends considerable impetus to the circulation of his



views, and in various South-East Asian countries this is all the more true if his views are favourable to the regime, since they then acquire possibly more sensational value than they would have had if they were adverse. The Chinese Communists accordingly exercise special care to impress visiting members of the intelligentsia, because of their potential propaganda value and because much prestige would be lost if the sympathies of any of them were alienated. Some insurance against this latter possibility is found in the methods of selecting visitors, which usually involve the co-operation of local pro-Communist groups in the free world countries, but the Chinese Communists can be embarrassed when an acute observer with a thorough knowledge of the Chinese language seeks admission as a visitor.

Communist China's conduct of popular diplomacy has expanded considerably since 1954 and is still expanding. On the whole the propaganda advantages gained have far outweighed any losses of prestige due to psychological resistance and such losses have been softened by the apparent reluctance of a sizeable section of the press in various Asian countries to risk its political future by unduly publicising criticisms of that regime.

Most visitors to Communist China are members of organized groups and are handled by their hosts on a group basis. For the Chinese Communists this is naturally economical since the accommodation, itineraries, guidance and interpreting can all be arranged for the group as a whole and Communist sympathisers within the group can be relied on to counter embarrassing demands by other members. The average size of the group, which is usually termed a "delegation" is higher than 10 and some delegations may number 50 or more. A delegation usually stays for a few weeks and although some may stay for more than a month, longer stays are evidently discouraged, presumably because of the risk of over familiarity. A Thai cultural delegation visited Communist China during 1957 in the hope of staying six months but returned after only a few months. Delegations usually represent trade unions, cultural groups, scientific or technical bodies, educational circles, or the various branches of government in free countries, especially the legislature and the executive. The principles of "co-operation" justifying the presence of certain types of delegations are discussed below, in the section dealing with Chinese Communist missions abroad.

The responsibility for organizing a delegation is generally shared between the Chinese Communist authorities and pro-Communist groups in the country from which the delegation is coming. Occasionally, however, local pro-Communists may not be able to influence the choice of a delegation because in the circumstances this might be resented, e.g., where a leftist but non-Communist political party in a free world country is invited to send a delegation to visit the regime.

The invitation may come from the Chinese Communist government or party or one of the front organizations, e.g., the All-China Federation of Trade Unions, or else from the Chinese People's Society for Cultural Relations with Foreign Countries. In a free world country the usual organization for handling visits to Communist China is the "friendship" society for that country. These societies, each of which is usually known as the "(so-and-so) China Friendship Association," exist in Afghanistan, Australia, Burma, Cambodia, Ceylon, India, Indonesia, Japan, Laos, Malaya, Nepal, New Zealand, Pakistan and, it is believed, in Thailand.

The regime takes steps to exclude persons whose observations might damage its prestige. In general, for instance, journalists are not encouraged and those who have been in China under the old regime are usually not admitted. There have been many indications that the regime does not welcome persons who are familiar with the country or who can speak Chinese. Point blank refusals to admit an intending visitor, however, are rare and the regime generally prefers as a matter of prestige simply to defer decisions so that the person concerned will realize that his presence is not desired. This treatment implies that the frustrated traveller will be charged with having unfriendly attitudes to the regime if he voices his dissatisfaction, and at the same time the traveller realizes that if he is admitted by the regime, the Communist authorities can easily place him in a compromising situation which, suitably publicized, would justify his imprisonment or expulsion.

The most notable recent case of exclusion from the regime occurred in February 1958, when Lord Lindsay of Birker was refused admission. Lord Lindsay is a professor at an Australian university who has spent many years in China and has made a close study of the present regime. He had visited Communist China with a British Labour Party delegation some years previously and had commented unfavourably on the limitations imposed on that delegation in its movements through the countryside. The Communist authorities, in deciding to exclude Lindsay, evidently felt that the resultant loss of prestige would be less than that likely to follow the publication of his criticisms after a second visit, since these would probably have damaged the regime's reputation considerably.

#### Hospitality of Peking and Controlled Environment

The exercise of popular diplomacy towards visitors to the Chinese Communist regime places very great emphasis on extending lavish, cordial hospitality with a degree of deference much higher than a visitor would normally expect. This type of treatment has a strong tendency to induce credulity in even the most experienced travellers and invariably has a decisive influence on persons of limited education and background, especially if they are abroad for the first time.

A delegation arriving at Peking airport or railway station finds the place decorated with flags and flowers in their honour and there is usually a large welcoming group which may be headed by the Foreign Minister if the delegation has an important status. Delegations are accommodated at pre-arranged locations and are then presented with programmes for their visit on the understanding that voluntary adherence to the programme will accord with the remarkable goodwill shown by the hosts. The programme itself usually contains alternatives, but any person who wishes to exercise his nominal freedom to depart from the programme normally finds his purpose politely frustrated, for every official will advise him that any particular visit or interview must be pre-arranged through the proper channels. No foreigner has yet been allowed to roam around at will or speak even through interpreters with any persons chosen completely at random. The deference and hospitality shown to visitors tend to induce conformity to what has been arranged, but the discreet pressure ensuring adherence to the programme naturally irritates some of the more inquiring and independent visitors. There have been some remarkable instances of this type of irritation among several Indian delegations to Communist China over the past several years. Moreover, although the lavish hospitality shown to visitors normally elicits



their goodwill, discerning observers are often disturbed by the contrast between the luxury which they enjoy and the miserable condition of the masses of the people.

When several delegations are visiting the country at the same time, e.g., in connection with celebrations of May Day or the regime's National Day, the Chinese Communist authorities take extraordinary precautions to prevent them from meeting and comparing notes; the delegations are accommodated in separate hotels and congregate together only if this becomes necessary for the festival to which they have been invited.

The pre-arranged programme for a delegation normally provides for a rapid succession of activities and all the expenses are met by the hosts. These two factors also make it difficult for a visitor to step out of the planned programme, for insuperable currency and language problems arise if he attempts any unofficial activities. Delegations are rarely permitted to bring their own interpreters and thus must rely on officials designated for this purpose.

The system of control over the visitors is backed by the constant supervision of security agents, who in particular are responsible for ensuring that delegates use their cameras only as the regime desires, i.e., by not photographing any scenes reflecting on its prestige or containing details of possible military significance. The latter term is taken in a very broad sense and includes any big buildings, construction sites, and views seen from trains and ships. Visiting journalists are thus subject to many restrictions.

In conducting visitors to points of interest, the Chinese Communists take cynical advantage of the ignorance of incoming travellers. Thus various scientific and industrial establishments which were founded under the previous regime, often with Western assistance, are presented to the visitors as triumphs of the Communist Government. The general theme of the comments presented by guides and interpreters is that any achievement is due to the Communist regime and that any obvious backwardness is due to the negligence of the former authorities and that the Communists have not yet had time to cope with it.

Cities which delegations are to visit are cleared of beggars and pedlars, and the route followed by the visitors avoids the slums as much as possible. At industrial centres and collective farms, the manager and his associates are briefed for a recitation of impressive statistics about increases in production and workers or peasants learn comprehensive statements about the state of the enterprise so that they can be repeated when visitors ask questions.

Most visits begin with a stay in Peking which is spent in seeing the sights of the city—the Great Wall, the university centre and even a model gaol—attending parties and meetings, and visiting industrial, administrative, educational, scientific and other establishments. This period in Peking is often followed by a visit to the industrialized North-East and then usually a trip to the cities in the South, especially Shanghai. At certain centres, especially in Peking, visitors always meet stock per-

sonalities with the same conversation for the occasion—the model prisoner at the gaol, the model worker at the factory, the model peasant at the collective, the “reformed” capitalist, the ardent young party member of either sex, and the unfortunate who was rescued from oppression and destitution by the advent of the Communists.

Questions put by visitors about fundamental aspects of the regime are always met by bafflingly uniform official answers. Because everything has been pre-arranged, there is no way of inducing the guide, interpreter, official or man in the street to forget all his Communist jargon and speak of political or social matters in a genuine, unaffected manner. Every Chinese interrogated repeats the same formulas stressing the good life achieved “since liberation”, the wise leadership of “Chairman Mao and the Communist Party”, and the regime's desire for international peace. Educated Chinese who know a foreign language will converse only in Chinese, i.e., through an interpreter. Even a visitor who can speak Chinese can find no way of speaking alone with any of the citizens of the regime, although in a free country this is the most fruitful way in which a foreigner can arrive at an understanding of the people and their attitudes.

The obstacles to frank and genuine conversation with the ordinary Chinese are not very evident to unsophisticated visitors of limited education and background, such as many of the members of the average trade union delegations, but these obstacles are particularly evident to discerning visitors who are eager to discover actual conditions and uninhibited reactions. Thus the noted French observer, Robert Guillain, declared, after visiting the regime in 1955:

*“There are 600,000,000 Chinese, but in two months I was never permitted to speak with a single one in private. If I did it was by subterfuge. There are 500,000,000 peasants but I got nowhere when I asked to stay a few days in a village or even just 24 hours. I was never able to enter a house picked by myself at random. I never stopped at a factory, a farm, or any institution whatever without the visit having been arranged in advance. I tried to talk—without witnesses—with Catholics, with a non-“progressive” clergyman, and with a former land owner; I tried to visit a labour reform camp for “reactionaries” etc. Wasted effort. . . . Nothing is ever improvised. I wished to see a Chinese family? It is chosen for me, the hour, the locale, the car for me to go there. I would like to meet a Shanghai capitalist, a species on the way to extinction. He is chosen with care and, as I learn later, the same one that twenty visitors before me have gone to see. Wherever I go a reception committee awaits me, vigilant, garbed in blue cotton uniform. . . . I am not asked first what I would like to know but am subjected to an advance exposition of what I ought to know. . . . There is never any question of free discussion on any subject whatever”.*

These criticisms by Guillain accord with the complaints made by many other foreign visitors, apart from those sympathetic to the regime.



### Motivation of Visitors and Their Reactions

The motivation of visitors to Communist China varies a great deal. Generally speaking, members of foreign trade delegations are interested solely in China as a market and are concerned with political and ideological factors only as they relate to this primary interest. The apparent unity and discipline of the regime usually leaves a very strong impression on this type of visitor so that regardless of the success of his mission he returns to his own country as an advocate of the need to recognize the strength of Communist China and of the consequent need to co-exist with that regime and do business with it. Hence the Chinese Communist authorities, even while deliberately toying with the business ambitions of such visitors, derive a double propaganda return from their stay, viz., continued stimulation of foreign interest in trade with the regime, and greater conviction abroad about the apparent necessity to accept Communist China as a permanent and even advantageous international reality. Occasionally the basic Chinese Communist hostility to foreign "capitalist powers" makes itself felt through the facade of business diplomacy, thus unduly enlightening the foreign business enquirer, but in general the exercise of people's diplomacy towards businessmen from abroad is successful.

Other delegations going to Communist China for "cultural," scientific or technical purposes, or to imbibe the goodwill of Communist trade unionist, women's or other organizations, usually comprise persons of pro-Communist

sympathies, uncommitted admirers, individuals who simply wish to study conditions under Communism and opportunists who see Communism in the ascendant. In addition not a few members of the average delegation are simply eager for a new, low-cost experience, and are anxious to enjoy it as long as possible.

It is difficult to assess the proportions of these different categories, but among them the most important groups are the uncommitted admirers and the opportunists. The category of genuine observers is small and consists mainly of visitors from Western countries, who are sometimes journalists. These naturally differ in their degree of objectivity, but the general motivation is to gain the experience of living under a Communist regime. Some are obviously anxious to utilize this for sensational purposes and they sometimes advance the claim that the experience of living in Communist China is essential for the conduct of a proper foreign policy towards that country. Some of the persons in this category often have ambitions as arbiters of foreign policy and even when they return with many criticisms of the regime it is often apparent they have been misled effectively by some of the propaganda directed to them and some of the controlled behaviour which they have witnessed. In this way it sometimes happens that individuals strongly opposed to Communism return from a visit to Communist China after having been unwittingly influenced by Chinese Communist declarations about economic progress, trade prospects, living conditions etc., and by the absence of apparent discontent under the regime's heavy system of thought control.

The opportunists who visit Communist China are normally persons from South-East Asian countries who regard their homelands as destined to fall in the near future under Communist China's sphere of influence. Many of them go to Communist China in order to verify their feelings about the ascendancy of Communism and to ingratiate themselves with the Chinese: they generally return willing to give the Chinese Communist regime as much prestige as they safely can and also willing to co-operate with local Communists. In the case of overseas Chinese, opportunism of this kind is counselled by strong covert influences within their own communities. The flow of opportunist visitors to Communist China depends very much on the degree of prestige which Communist China enjoys in their own and neighbouring countries and on popular conceptions of the military and economic strength of that regime. Hence the attraction which Communist China has for opportunists, especially in South-East Asian countries, is in inverse proportion to the strength and vitality of political leadership in those countries.

The uncommitted admirers, whose integrity often contrasts refreshingly with that of persons in the previous category, proceed to Communist China with some knowledge of the evils of that regime but in the hope of learning whether it embodies some great secret of political and social progress. The appeal exercised towards such people is naturally all the stronger if they are disillusioned by inefficiency and corruption in their own country and can see no prospects of reform in its politics or its institutions. An explanation of the appeal which Communist China is able to make to Asian thinkers disaffected by the conduct of their own political leaders has been given by the Indian author Raja Huthesingh. Explaining why he visited Communist China he declared in his book *The Great Peace*:

*"I felt the frustration and despair of the Indian people who had hoped that free India would fight against misrule, oppression and poverty. But our leadership had been found wanting and millions continued to live without hope in hunger and in ignorance. China seemed to offer a new way by which the Asian people could acquire the means of improving their lot. I was eager to see for myself the achievements of the Chinese people."*

There can be no doubt that Communist China's well advertised "achievements" exercise strong attraction for politically conscious patriots in free countries of Asia which are plagued by feuds, irresponsibility, corruption and inefficiency among their political leaders.

It is difficult to assess the reactions of the uncommitted admirers who visit Communist China. Because the visitors are exposed only to controlled situations, the continuity of ideas implicit in the situations assumes a high credibility, resulting generally in strong impressions of the strength of the regime's



# TAXATION AND DEVELOPMENT OF AGRICULTURE IN UNDER-DEVELOPED COUNTRIES, WITH SPECIAL REFERENCE TO THE FAR EAST

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## I. INTRODUCTION

The importance of the agricultural sector in the development of under-developed economies is widely recognized in the countries of Asia and the Far East and agriculture has been given high priority in the development plans of most of these countries. Taxation affects agriculture in many phases and stages of production and distribution. In this paper an attempt is made to provide a general picture of the various taxes which are considered to affect the agricultural sectors more directly than the others. It is believed that a general paper of this nature will serve as a background for future work in this field. In the discussions which follow special efforts are made to include references also to tax systems and experience in under-developed countries outside the region which may be of interest to countries of Asia and the Far East. In the present paper it is not possible to cover all aspects of agricultural taxation and related problems and issues. For this reason most of the discussion is confined to basic systems and major alternatives which may have more general application. Once agricultural taxation is studied in its broader inter-relationships, it is easier to realize the wide gaps in our knowledge and the need for further research and examination in order to evaluate the economic and developmental effects and the implications of agricultural taxation in specific fields.

The changes which have taken place in the pattern of agricultural taxation in the countries of Asia and the Far East clearly reflect the economic conditions which have recently emerged in the region in the wake of postwar political and social developments.

Traditionally, taxation has functioned as the major link and the point of contact between the state and the agricultural communities. The revenue needs of the state were primarily financed from the contributions of the agriculturalists directly or through intermediaries, in cash or by payment in kind, under the legal title of rent to the sovereign—in whom ownership of land was vested—or in the form of taxes imposed by the state. The services of the state, on the other hand, were generally limited to national defence and the maintenance of internal law and order. The provision of such services by the state authorities did not, in most instances, entail any continuous contact with rural communities. Many necessary communal services were provided by the peasantry itself under the landlord's auspices, e.g. through the application of the "corvée" system or on a co-operative and partnership basis.

The relations between the agricultural communities and the government have altered in many respects during recent decades. The government has not only assumed many of the landlord's functions but has gone on to expand greatly its services, particularly in the social and economic field, e.g. for education, health and welfare, for road construction, housing, agricultural extension services and irrigation works. Taxation of land, on the other hand, has declined in significance in view of the inherent inflexibility of the system. The increasing

need for revenue on the part of the government has been met by the enhancement of consumption levies and the introduction of a variety of other taxes, some also falling on agriculture under difficult forms and through different collection procedures or on other sources of income which have grown in importance with the development of the economy and the expansion of activities. Within the agricultural sector itself important changes have occurred in all phases of production, ownership, tenancy and other institutions. A steady shift has also taken place from subsistence farming to commercial production, through which agriculture has come in closer contact with the complex money economy.

## II. MAJOR TYPES OF TAXES AND GOVERNMENT SERVICES AFFECTING AGRICULTURE

Taxes on agriculture are numerous and are levied according to a variety of economic indicators and values in the agricultural sector. No final and permanent classification can be made of taxes levied on agriculture, in view of their close inter-relationship and of the inclusion of various economic indicia in one or more types of taxes. For the purpose of this paper we may distinguish five broad categories of taxes which may be levied directly on agriculture: (a) income tax, (b) farm output tax, (c) taxes on capital value (i.e. value of land and improvements), (d) taxes on sale of agricultural commodities and finally (e) taxes on agricultural inputs. Under special market and price conditions, fiscal monopolies, marketing boards and multiple exchange rate systems have also been used to secure important revenue contributions from agriculture. There are also taxes on property transfers, special assessments, betterment levies and a host of charges and surcharges levied on top of the taxes enumerated above, either for general revenue or for special purposes. One should add the taxes which the farm population pays on what they themselves consume in the way of consumers' goods purchased in the market. As against these taxes, there are numerous subsidies which in many cases can be regarded as negative taxes and deductible from individual taxes or the sum of all taxes levied on agriculture. Some of the subsidy payments may also be considered as government expenditure unrelated to taxation and may enter into the calculation of benefits provided through government expenditures in agricultural communities.

## REVENUE SIGNIFICANCE OF AGRICULTURAL TAXES

A major limitation to the accurate definition and determination of agricultural taxes is the shifting incidence of these taxes; the burden of taxes levied on agriculture may finally rest on other sectors, or taxes levied on other sectors may be ultimately paid out of resources in the agricultural sectors. The statistical presentation of the government receipts from taxes falling directly on agriculture also involves great difficulties in the consolidation of the revenue accounts from the various budgets and reclassification of the tax items on comparable bases for the purpose of inter-temporal and inter-country analyses of data. With these reservations, the following general references are made to the major revenue-yielding agricultural taxes in order of importance.

In a number of countries of Asia and the Far East export duties constitute a major source of government tax revenue—far above the level of receipts from land taxes. Export duties have increased in importance in the postwar years and reached a high level during the Korean war boom market for raw materials. According to a rough estimate of postwar

popular support, the spontaneity of public devotion to Communism, the innocence and logic of the regime's foreign policy, and the speed and scope of its economic development. A high proportion of uncommitted admirers are therefore strongly impressed by the regime's apparent strength, unity and progress, but a significant number appear to be repelled by its totalitarianism and its failure to raise living standards appreciably.

(To be Concluded)



averages, receipts from export duties contributed around one-third of the total government tax receipts in Borneo (North), Malaya and Pakistan, and revenue from such sources was important (one-tenth of the total) in India, Indonesia and Thailand. In Burma, where the state-operated Rice Marketing Board undertakes the purchase and export of the rice allocation, the resulting profits contributed close to one-half of the total revenue. In Indonesia and several other countries, the practice of the multiple exchange systems has resulted in important disguised revenues from export commodities.

Revenue from the land tax (including the taxes listed under *b* and *c* above) followed an opposite trend, declining sharply during the war and in the immediate postwar period. It has only recently shown slight increases in absolute amounts as well as in relative importance. Receipts from land taxes brought in close to one-half of the state government receipts and one-fifth of the consolidated revenues of state and central governments in pre-partition India. In the immediate postwar years, land tax receipts did not exceed one-fifth of the state and provincial government revenue and one-tenth of the consolidated budget receipts in both India and Pakistan. In Burma, the land tax contributed around 5 per cent of the total tax revenue in this period. In Nepal, land tax receipts are still an important source of revenue for the Government. It should be noted that the recent rise of land tax receipts in India and Pakistan is partly attributed to inclusion of amortization charges paid by the cultivators for the purchase of land distributed from the holdings of the zamindars following land reforms in certain states and provinces.

In addition to export duties and land taxes, a number of taxes are levied in the countries of Asia and the Far East on various agricultural products in the form of excises and market taxes by the local, state or central governments. In India, for example, the central government's excise on tobacco is a sizable source of revenue. In India and Pakistan, agricultural income is taxed only under the provincial or state tax systems, but the yields are still very low even in reference to the provincial and state government finances. In the other countries of Asia and the Far East, income from agriculture is not explicitly excluded from the central government income tax—as is the case for the above two countries. But income tax collections in these countries are not of great relative importance and, moreover, the effective coverage of the income from agriculture is not certain.

A review of the changes in the pattern of taxation in under-developed countries of other regions reveals striking resemblance with conditions in Asia and the Far East. The land tax which was an important source of revenue in the countries of the Middle East and Latin America has lost its revenue significance in all these countries. Contributions from this source do not exceed one-tenth of the total tax receipts in most of them. In Egypt, for example, the yield from the land tax was about 25 per cent of the total revenue in the prewar years, was reduced to 5 per cent in the immediate postwar years, and has only recently been increased to 10 per cent of the total following the postwar land reform. Export duties form a major source of government receipts in Nigeria and Uganda in Africa, and in Mexico, Haiti and Guatemala in Latin America. Market taxes on agricultural commodities are important in Iraq and Syria and in Cuba and the Dominican Republic. Agricultural marketing boards in West and East Africa (e.g., Ghana, Uganda and Kenya) produce significant profits and in Latin America as well as in the Middle East, a number of governments have received considerable gains from the use of multiple exchange rate systems in connection with export commodities. It should be mentioned that in many under-developed countries, the yields from income taxation of the agricultural sources of income have increased appreciably as the result of recent legislative and administrative measures.

#### AGRICULTURAL TAX SYSTEMS

##### Income tax

Agricultural income subject to income tax is in principle assessed on a net basis after deductions of the cost of production and other business expenses. Taxation of agricultural income under this tax is usually progressive and makes allowances for the family and dependency status of the tax-payer. Agricultural

income is taxed either under a separate income tax schedule sometimes combined with a complementary global tax or together with other incomes under a progressive income tax (as in Ceylon, Indonesia, the Philippines and Thailand).

In India and Pakistan, the central government income tax does not extend to income derived from agriculture whose taxation is constitutionally within the jurisdiction of the states and provinces. Certain types of income such as income derived from plantation and agricultural processing are, however, considered partly non-agricultural and are to that extent included in the central government income tax base. Agricultural incomes in certain states and provinces in these countries (e.g. in twelve states of India, and East Pakistan, Punjab and North-Western Frontier Provinces of Pakistan) are subject to a provincial agricultural income tax. While the law provides elaborate bases and definitions for the determination of actual taxable income, in practice rents and land assessments are heavily relied on.

##### Farm output tax

This type of tax is the most common tax in Asia and also in the Middle East. It is primarily a tax on the staple crop, but may be combined with taxes on livestock, fruit trees, vegetable gardens, etc. The farm output tax can be classified into two major categories according to the method of assessment and collection. A very old method of taxation of land is the sharing of the major annual crops with the state. This system, which may be called the actual output tax, is in force in China (Taiwan and mainland) and in Korea (southern and northern), and is assessed on the basis of the actual crops at the time of harvest; the share of the government (in these countries, primarily the central government) is collected in kind on the farm or delivered by producers to the public warehouses and granaries. In mainland China, these taxes have recently been levied at rates increasing progressively with the size of holding.

The second major category of these taxes may be called the cadastral land tax; it is predominant in the Indo-Pakistan sub-continent and is within the jurisdiction of state and provincial governments. The annual output of the land also forms the basis of assessment for this tax, but instead of being on a yearly basis of actual harvest assessment is related to the output of one single or an average of several years, and the result is recorded in the cadastre and is utilized for a number of years without basic revisions. The cadastral land taxation may, according to laws and practices in different areas, include in the tax base the net or gross output, or net or gross rent, etc. In some systems, for purposes of simplification, certain standards or economic indicia, such as irrigation method or area and size of holdings, are used as the only criteria for valuation, although such variables only partially determine the actual farm output. In practice, the situation may be still more confused, when, in the absence of proper valuation techniques and standard manuals, tax assessors utilize their discretion.

##### Property tax on capital value

This tax is similar to the real property taxes in force in the United States, Canada and the majority of the Latin American countries. The property tax is usually a flat-rate tax which is converted into a fixed sum in the cadastre. The tax base is the capital value of the property reflecting the value of land, improvements, water resources, etc. In many ways this tax can be regarded as similar to the cadastral land tax. The main difference is the tax base: in the former, the capital value is the basis of valuation, and in the latter, the annual or rental value. When a farm property yields a given normal income, taxation of this income or taxation of its capitalized value may produce the same result. The two tax types will lead to different results where the capital value of a farm property is assessed not, or not only, on the basis of the capitalization of actual income or revenue capacity, but also on that of other criteria affecting farm values and prices, especially actual prices paid for similar lands. In Thailand, the land development tax is imposed on the capital value of the land; the rates are low (under one per cent of assessed values) and vary according to location of the land within or outside the municipal districts. In the Philippines, the real estate tax is also assessed on the basis of capital value.



### Taxes on the sale of agricultural commodities

These taxes exist in a variety of forms. Two basic types can be recognized. Taxes of one type are levied on agricultural produce brought to local markets for domestic consumption. The other category includes taxes levied on agricultural commodities at the time of export. The main difference between market taxes and output, particularly actual output taxes, is that the former do not cover the part of crops or livestock consumed on the farm. The major advantage of this tax is administrative ease. Tax collection does not require inspection of individual farms and preparation of cadastres and tax rolls. The establishment of ownership of land on which crops are raised is not necessary under this form of taxation. But there are some other drawbacks in the market tax, in that it is more difficult to conceal crops on the land than in the trading process in local markets and, moreover, the enforcement may hamper the flow of domestic trade in such commodities. The use of export duties is quite common in Asia and the Far East, and basic agricultural export commodities such as cotton, jute, tea, rubber and rice are subject to this kind of taxation.

### Taxes on inputs

Taxes on a number of basic factors of production, such as land and improvements, have already been referred to. Numerous other inputs, such as farm machinery and implements, draft animals, fuel and construction material for farm buildings, may be subject to sales taxes, consumption taxes and import duties, though in many Asian countries such inputs have been given favourable treatment in the tax system. In several Asian countries, the distribution of fertilizers by the government to farmers below cost may be regarded as a subsidy on agricultural inputs.

### Fiscal monopolies and marketing boards

Government monopolies in a number of countries which cover a variety of commodities at various stages of marketing contain certain elements of taxation. Fiscal monopolies may relate to largely domestically consumed products, such as tobacco, or, frequently in the form of marketing boards, to export products such as rice (e.g. Burma). In most cases, the government has the right of purchasing the commodity at a fixed price for sale in domestic or foreign markets. Usually sales are made at a profit where the purpose of the monopoly is fiscal and proceeds are used for the financing of government current accounts or development funds. Sometimes, however, the purpose of the monopoly is subsidization of the consumers. In other cases, it is designed to provide price support to the producers. Fiscal monopolies in some systems may operate in the same manner as output and market taxation. The determination of the real tax component in their operations is always difficult, particularly when monopoly profits are appropriated by the government on an arbitrary basis.

### Other taxes and levies

A number of special taxes are levied on agriculture. These taxes fall on a variety of agricultural bases and subjects, rendering their classification complicated. These taxes include property transfer or registration taxes, (e.g. in China: Taiwan and India) which are levied at the time of sale; in certain cases they are designed to restrict speculative transactions with lesser emphasis on revenue productivity. The betterment levy on increment in value of land is usually calculated net of increases in value attributable to the efforts of the owner or to a general rise in prices. Special assessment taxes serve to apportion the cost of public improvement among the owners of properties directly benefiting from such public expenditure. This form of taxation may find application in rural areas, particularly in reference to irrigation services of the government, e.g. India and Pakistan.

In almost every country, a variety of surcharges are levied on agricultural taxes. These surcharges are additions to the rates in fixed sums or in percentages of the tax. Many surcharges are earmarked for special services, such as water and schools. Some of these surcharges are for non-fiscal and purely regulatory purposes, e.g. surcharges on land tax in the case of absenteeism, production of less desirable commodities, utilization of uneconomic methods of cultivation. In most tax laws and systems there exist, on the other hand, a host of allowances

and measures in favour of the tax-payer in cases of hardship. Reference should also be made to the increasing use of special tax incentive measures.

Death and inheritance taxes have until recently not been very common in Asia and the Far East and other under-developed regions. In those countries where such taxes exist, they are often of recent origin, and are not yet effectively administered; exemption levels also are still quite high. The death duties in some systems are levied on the total estate of the deceased; in others, the heirs' shares are taxed separately, while in still others, both the total estate and the heirs' shares are subject to tax. Gift taxes are sometimes included in the death duty system and sometimes imposed separately or along with property transfer taxes.

### Negative taxes and subsidies

Subsidies can be classified into producers' and consumers' subsidies. Many producers' subsidies are in the form of price support for commodities (e.g. in Asia and the Far East on cotton, jute, rubber, tea, coffee, and rice) which are subject to price fluctuations or which, though important from the point of view of national economy, are not—or not yet—fully remunerative for producers.

Payment of producers' subsidies is usually tied in with other fiscal or economic measures, which may alter or offset the ultimate benefit received by the producers from such payments. In Indonesia, while subsidies on exports of such commodities as rubber, tea, and coffee were granted during some periods, the exchange rates applied to these exports appeared unfavourable, and the net result was concealed taxation rather than a subsidy. In Pakistan, the price support subsidies introduced during the recession in the raw material market in the post-Korean war period on cotton and jute should be analysed in reference to the existing export duties on such commodities. The price stabilization policy maintained under the commodity and marketing board arrangements in this region does, in principle, entail subsidy payments when prices move below a determined level, but the postwar records of marketing boards' operations in Asia and the Far East (e.g. in Burma) do not indicate substantial subsidy payments in view of the maintenance of fixed purchase prices far below the minimum postwar market prices.

Consumers' subsidies, on the other hand, primarily benefit the city dwellers. In Asia and the Far East, they take the form of supplies of low-priced grains to consumers. Sometimes, instead of buying the grain at the market price from the cultivators and selling it at cost or less to the consumers, the government buys the product at a low price from the producers and sells to the consumers at cost or even at a profit. In these cases, the consumers' subsidies are financed—at least in part—by the producers. In some other cases (e.g. Japan and most other countries in periods of food shortage and famine emergencies), the government imports the product directly and sells it usually at a loss. In those cases where financing is made through the general funds, the tax burden follows the general tax distribution pattern. Where such imports are made out of grants or loans, the manner of appropriation of counterpart funds should also be taken into account.

### Services to the rural communities

Apart from general government services, such as defence, international relations and general administration, there are certain goods and services provided by the government which have a direct bearing upon the agricultural sector. The benefit to the agricultural sector of government services, however, is not limited to those services directly rendered to agriculture. Many services, e.g. to the industrial, financial, trade and communications sectors, may also afford agriculture considerable advantages. Public services affecting the agricultural sector directly may be classified into (a) social services, (b) economic services, (c) technical services and (d) community services. A few generalizations can be made in this respect.

The social services in the majority of the under-developed countries relate to education, health and welfare. Privately sponsored schools and universities, hospitals, clinics and charity organizations are not significant compared with the need and with government facilities. Nevertheless, in most countries the extent of the latter services of the government in these fields is



still limited. The cost of such services constituted about one-tenth of the over-all and consolidated expenditure of the government until recently, but accounts for an increasing share in the last few years in view of higher appropriations for such services in the current accounts as well as in developmental outlays. It should be noted that such services are, for well known reasons, concentrated in city areas, and consequently benefit the urban population more than rural inhabitants.

The economic services of the government affecting agriculture are numerous. References have already been made to the nature and to certain functions of subsidies in Asia and the Far East. The government agricultural credit programmes administered directly through the agricultural banks are of great importance, and increasing attention is being paid to the conditions of agricultural financing in the region and to the possibilities of crop insurance. The numerous services offered by the government departments and banks as well as the commodity and marketing boards with respect to trade and technical research projects and market analysis call for some mention. Agriculture has been given great prominence in the development activities of Asian countries, and important technical surveys have been made in this connexion. As indicated above, in many countries the question of price, stability and counter-cyclical policies had led to the establishment of special funds and agricultural commodity boards.

Government services in the form of irrigation works, road construction housing, improvement of transportation facilities and establishment of granaries and silos which benefit agriculture directly have increased greatly in recent times. Certain industries promoted and financed by the government, such as processing plants and industries based on farm produce as raw material, have had a favourable effect on agricultural production.

Sizable funds have also been allocated to such technical services as agricultural schools, farm extension stations and market research. Community development services are of increasing significance in the region and have been allocated substantial government funds to provide for the services of experts and specialists, the establishment of model communities and a wide range of supplies and facilities.

### III. OPERATION OF TAXATION IN THE AGRICULTURAL SECTOR

The operation of taxation in agriculture is subject to important limitations which are inherent in the economic structure of agriculture. Even in advanced economic societies the obstacles to the proper functioning of agricultural taxation have not been fully overcome. In the history of taxation of under-developed countries there have been many attempts to improve the agricultural tax structure and administration, but the special conditions of agricultural production have in many instances contributed to the failure of such reforms, and governments have been compelled to fall back on old methods or to devise *ad hoc* techniques as substitutes for more desirable alternatives. This is a matter which has often been overlooked by specialists from advanced countries in their evaluation of the tax system as a whole and in regard to taxation of agriculture in the under-developed countries.

In a study of agricultural taxation and evaluation of alternative tax methods, the characteristics of the agricultural economy and their amenability to taxation should be borne in mind. Taxation has a direct relationship with the degree of monetization of the economy which renders the adoption of modern fiscal systems feasible and tax operation more manageable. In the following pages an attempt is made to examine some of those aspects of agriculture which directly affect tax operation in this sector.

#### NATURE OF AGRICULTURAL ENTERPRISE

In subsistence economy areas of under-developed countries, the farm constitutes a self-contained economic unit in which production and consumption take place without much contact with the rest of the economy and particularly the money economy. Since the production unit and the farmers' household are hardly distinguishable, the input and output of the production unit and income and consumption of the household are intermingled. Accordingly, the production surplus and savings of the household cannot be identified as easily as in

the case of commercial enterprises, industrial or agricultural, such as large-scale plantations of export commodities (e.g. rubber, tea, tobacco in Ceylon, India, Indonesia, Malaya, etc.). The distinction between the household and the enterprise is not vital to a typical farmer and he may not see any compelling reason to keep records, even assuming his ability to do so. The knowledge of the net monetary result of his operation is not as important to the agriculturalist as to the industrial and commercial entrepreneur, because he does not as readily alter his choice of occupation and shift his capital, management and labour to other, more remunerative branches of economic activity. Moreover, his production is greatly influenced by factors beyond his control which reduce his sensitivity to cost accounting. Agricultural production is highly unstable and this is reflected in the quantity of output as well as in prices. Where subsistence economy predominates, the level of income is very low and consequently also the taxable capacity; this, of course, is also true in certain agricultural sectors within the money economy. Agriculture is also geographically less amenable to taxation and tax collection, since their administration must cover vast areas in which numerous often small and scattered farms are located. The identification of land and determination of ownership rights and titles on land, which is the condition of certain types of agricultural taxes, is difficult because it necessitates preparation and organization of scientific large-scale maps and up-to-date cadastral surveys. Advanced techniques of cartography, particularly by aerial survey and photogrammetric methods, are, however, rendering cadastral survey mapping more efficient and economical.

#### THE RELATIONSHIPS OF TAX SYSTEMS AND LAND TENURE

The operational relationship of the land tenure system with taxation is very close in the Indo-Pakistan Sub-continent, though less so in other countries of the region. The land tenure system formalized under the permanent Settlement Act in British India was primarily a revenue measure for the authorities concerned. The resultant tenure system can be regarded as a means of securing necessary revenue. Under the Act and subsequent revisions thereof, the revenue farming system of the Mogul sovereigns was extended and perpetuated with some alterations in line with the system in vogue in England at the time, and was also influenced partly by administrative and political necessities. In China the land tax tradition was different. There the tax was usually collected in kind as a flat percentage of actual farm output and was delivered to government warehouses at harvest time. Under this system, establishment of ownership was not a prerequisite for assessment as is the case in India and Pakistan. As pointed out earlier it has been possible to avoid considering the question of ownership, in many countries by the substitution of market taxes for cadastral land tax systems, e.g. in Iraq and Syria at present and in Iran and Turkey until recently. When an element of progressiveness is introduced in the agricultural system, land tenure acquires special significance for the establishment of ownership holdings and the determination of their output. In mainland China, as well as in southern Korea, progressive rates are levied on farms according to the size of holdings, while in India and Pakistan, as well as in other countries, progressive personal income taxation is adopted as an alternative. As will be pointed out in part IV, many tax measures have been introduced in the region in connexion with land tenure reforms recently enacted and undertaken in many areas.

#### VALUATION AND ASSESSMENT

With a view to overcoming the difficulty of valuation in the agricultural sector, which is perhaps the major impediment to the effective taxation of agriculture, the majority of under-developed countries have made extensive use of two methods. In the case of farm output taxation, great reliance is placed on tax roll valuations which serve as the basis of assessment for a number of years. The second method, which will be discussed in the next section, consists in the exclusive use of specific and fixed sums instead of percentage or *ad valorem* taxes for excises, market taxes and export duties.

When tax liabilities are determined for a period of several years, the tax and the values lose much of their original relationship over a period of time in view of wide agricultural



# HONGKONG'S WATER CONSERVANCY AND POPULATION\*

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The intimate relationship between public health and a pure water supply was only beginning to be appreciated in England in the 1850s following Edwin Chadwick's energetic stirring of the public conscience in this matter. Therefore it is not surprising to find that in the earliest years of the Colony the question of water supply received scant attention from public authorities and was left mainly to individual initiative.

In 1851 City water was supplied by five wells. However population was growing at such a rate that something more adequate was clearly needed. The Governor, Sir H. Robinson, offered a prize of £1,000 for the best design of a water supply scheme. This prize was won by Mr. Rawling, a clerk of works attached to the Royal Engineers.<sup>1</sup> His scheme consisted of a reservoir of 2 million gallons capacity at Pokfulam, with leads from there to tanks at Bonham Road, whence city distribution would be made. Work was started in 1859 when population numbered about 90,000 and completed in 1863 when population had risen to 125,000 and water supply was already inadequate.

price fluctuations and secular inflationary trends. Many discrepancies inevitably result. The experience of India under the zamindari system is a case in point. Prior to the Permanent Settlement Act, the sharing of tax liability was based on a percentage distribution of the net annual output between the zamindars and the government, on the one hand, and the cultivators on the other. The enforcement of this form of taxation, however, met with some difficulty. The output was subject to variation from year to year, and the authorities experienced difficulty in accepting contributions in kind. These and other difficulties led the authorities to introduce a Permanent Settlement fixing contributions of the zamindars in money, payable annually in perpetuity and irrevocably. No similar disposition, however, was made regarding the contributions demanded by the zamindars from the cultivators. The consequence was that, during the period of rising prices of agricultural commodities, the government's revenue declined in real significance, while the zamindars absorbed an increasing share of the farm output.

## SPECIFIC AND AD VALOREM TAXES

In export-oriented countries of the region, the effect of the Korean boom in the raw material markets clearly revealed the inadequacy of the fiscal systems to cope with changing conditions. In the absence of flexible tax rates, prices soared for a long period before the government took action to increase export levies in order to bring the tax value relationship into line.

The government suffered losses in revenue owing to the delay in taxing extra profits, and the anti-inflationary impact of the tax was reduced in effectiveness. On the other hand, when prices subsequently declined, it took a considerable time for the government to reduce the taxes which became exorbitant in a depressed market. The successive sudden changes of taxation, moreover, may have created an atmosphere of uncertainty in the market detrimental to business. This may have added to the inability of the cultivator to anticipate commodity prices and allow for crop substitution. In a few instances, the tax was remitted after the crop had already been purchased from the cultivator by local traders at a price determined by the previous level of taxation in force. In such cases, the tax remission benefited the merchant classes only. Several governments in the region (e.g. Ceylon, Indonesia and the Federation of Malaya) introduced certain forms of sliding-scale or *ad valorem* taxes on their export commodities so as to provide more flexibility and a closer relationship between the tax and the commodity price level.

(To be Concluded)

Thus started a struggle nearly 100 years ago by the public authorities to meet the Colony's water needs with an adequate supply—a struggle in which victory has never been more than momentarily with the authorities.

From this time (1863) until 1930 the Island had to rely entirely on its own water resources and these were taxed to the uttermost. It is a story not simply of keeping pace with a rapidly increasing population but also of equally rapid growth of standards of water consumption per capita and of achieving growing standards of purity. Occasionally one detects a note of satisfaction and complacency when some big impounding work has been completed but the theme generally has been one of anxiety and urgency.

The City engineers quickly realised that, with the completion of the small Pokfulam reservoir in 1863, they could not rest on their laurels. A much larger reservoir of 66 million gallons capacity at Pokfulam, above the smaller one, was immediately taken in hand and brought into commission in 1871, while two small compounding dams, Mint Dam and Blue Pool Dam were constructed (see Map 19) and wells were sunk on the Peak.

In 1877 the conduit from Pokfulam to the City was reconstructed but, even so, piped water still was delivered only to the more intensively developed western half of the City.

Population was increasing year by year. Census figures for 1881 were 160,402, bringing greater and greater pressure to bear on water supplies. This inspired the Surveyor General, J. M. Price, to submit in 1885 a long report<sup>2</sup> on the situation, starting with its history and going on to urge the rapid implementation of the full Tytam Scheme. He pointed out that the Hongkong water allowance in 1885 was 4 gallons per head per day and compared it very unfavourably with the minimum requirement of 19 gallons per head per day in England at that time. He estimated that this allowance would be assured to 125,000 people with the completion of the Tytam Reservoir, which would bring the Colony's total water storage capacity up to 378 million gallons. By 1889 the work was done; a tunnel was cut through to Wongneichung and for the first time the eastern, as well as the western half of the City enjoyed a piped supply. Hitherto the eastern districts had had to rely on wells and hill stream water. This new supply also was the first to be filtered; the following year filter beds at Pokfulam were put into operation.

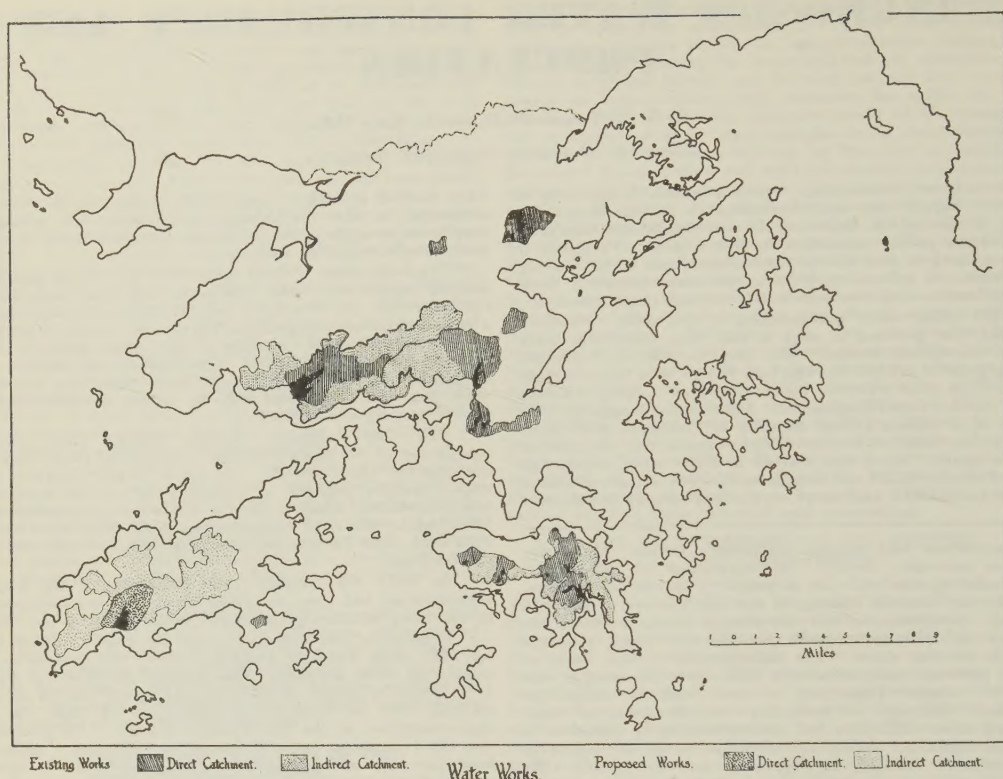
Price did not achieve his ambition of a daily supply of 19 gallons per day per head for, by the time the reservoir was in service, the population had risen to 194,482 and the struggle was on once again.

The Peak's requirements were the next to receive attention. Until 1891 residents on the Peak had had to rely entirely on well water. In that year a pump was installed and connected to the City supply.

From now on until the Island began to receive water from the mainland (1930), water engineers were continually attempting to find new ways and means of increasing supplies. In 1895 an additional 4.4 million gallons at Pokfulam was achieved. In 1897 the Tytam Dam was raised and another 94.7 million gallons added. A new small reservoir, having a capacity of 34 million gallons, was constructed at Wongneichung Gap and brought into use in 1901, thus bringing the Colony's total storage to 511 million gallons. Then came Tytam Bywash (1904) giving 26 million gallons and Tytam Intermediate (1907) giving 196 million gallons but, in spite of these efforts, population was still winning the fight. By 1911 it was 456,000. True, 16 gallons per head per day were supplied during the rainy season but periods of intermittent supply

\* This is the 6th article in the copyrighted series of 'The Development of Hongkong' which began in the issue of July 10, 1958.





(MAP 18) WATER WORKS OF HONGKONG AND THE NEW TERRITORIES

became more frequent, during which the ration was as low as 10 gallons per head per day.<sup>3</sup>

Clearly heroic measures were called for and they were forthcoming in the new large reservoir at Tytam Tuk. This was started in 1913 and completed in 1917 and has a capacity of 1,419 million gallons. Thus, in one big effort, the Island's water storage was nearly trebled. Little wonder that this was a moment of self congratulation and a complacent view of the future.

Climate, in the shape of long droughts, and an ever increasing population together saw to it that this triumph was short lived. Jackson says: "At the opening this scheme was publicly described as one to satisfy the Colony for many years to come . . . yet, before the scheme was complete, new supplies were being sought."<sup>4</sup> With the construction of Tytam Tuk the water resources of the Island were fully exploited.

Early in the present century a most remarkable development in parts of the City took place as a result of the water shortage. In order to secure greater economy in its use, the water authorities proposed the metering of all water. There was strong opposition on the part of the Chinese users. As a result, between 1903 and 1906, an additional main, called a rider main, was laid to carry unmetered water. "Consumers supplied from the rider mains jointly subscribed \$1,000,000 towards the cost and an extra ¼% tax to cover maintenance, rather than pay for all the water consumed."<sup>5</sup> Thus the unmetered water could be cut off before the metered. This "system" lasted some years but gradually faded away. Rider mains are no longer in use anywhere in the Colony.

For many years after its cession in 1861, Kowloon was not greatly troubled with questions of water conservancy. Its sources of supply were three wells sunk in three valleys north of Yaumati, across which were built three puddle dams to prevent loss of subsoil water by percolation.<sup>6</sup> These three wells had a combined capacity of 250,000 gallons per day and proved fairly adequate for need throughout the Nineteenth Century, although some shortage was being felt by 1891, when Kowloon's population had risen to 13,200. During the next decade numbers grew rapidly and it became increasingly clear that supplies drawn from within town limits (i.e. south of Boundary St.) would be quite insufficient for such a growth. Thus, the leasing of the New Territories in 1899 had particular significance for Kowloon for it enabled a new wide field of water supply in the hills to the north to be tapped. Without this timely acquisition Kowloon, perforce, would have had to remain the small town that it was at the turn of the century. In 1900 the Kowloon Reservoir was commenced and in 1906 finished, having a capacity of 352 million gallons. Kowloon's population made phenomenal upward leaps. Between 1921 and 1931 it more than doubled, rising from 123,448 to 263,020,<sup>7</sup> and to meet this a start was made in 1923 on the first part of the Shing Mun Valley scheme by an intake in the Shing Mun River to augment existing Kowloon supplies.<sup>8</sup>

Meanwhile, on the Island, the water situation was again serious. Any complacency felt in 1917 on the completion of the Tytam Tuk Reservoir was quickly dispelled by the ever rising population and a number of dry years and was utterly shattered by "that desperate year," 1929, when, through





(MAP 19) WATER CATCHMENT AREAS AND RESERVOIRS OF HONGKONG

drought, supplies were down to 3 million gallons per day from the Waterworks and one million gallons a day brought to the Island by tankers. On June 20th. only two reservoirs on the Island had any water left. They were Tytam with 176 m.g. and Tytam Bywash with 11 m.g.<sup>9</sup>

This situation led to the rapid implementation of the full Shing Mun scheme, first in the construction in 1932 of the Shek Lai Pui Reservoir (capacity 11.5 million gallons) and the first cross harbour pipe lines. Then came the completion in 1936 of the Jubilee Dam, the highest, at any rate at that time, in the British Commonwealth, impounding 2,921 million gallons and bringing the total storage of the Colony to 6,031 million gallons. This surely was enough to satisfy all requirements for many years to come. Yet, already in 1939, the population having topped the million mark, it was found that only during the wet season could a full 24 hour supply be assured; thereby emphasising the special water problem, which faces all places

having a marked seasonal rainfall. This problem is further aggravated when ground water storage is not very great owing to the nature of the underlying rock, as is the case in Hongkong.

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<sup>2</sup> Sessional Papers 1885. No. 7 b. 91.  
<sup>3</sup> Sessional Papers 1904.  
<sup>4</sup> L. Jackson op. cit. pg. 34.  
<sup>5</sup> L. Jackson op. cit. pg. 33.  
<sup>6</sup> Sessional Papers 1896 pg. 201.  
<sup>7</sup> Report on the Census of the Colony of Hongkong. 1931 W. J. Carrie Noronha & Co.  
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(To be Continued)



# COMMENTARIES ON CHINESE PAPER MONEY

## PART III

By E. Kann

### Description of Banknotes Issued in Kwangtung since 1912.

The following are particulars relative to the emission of paper money in Kwangtung between 1912 and 1932:

- (1) \$5, issued by the Bank of China, dated 1912 and engraved by the American Banknote Co., New York.
- (2) \$1, issued by the Bank of China, dated 1913 and printed by the American Banknote Co.
- (3) \$10, issued by the Bank of China, dated August, 1914, and printed by the American Banknote Co.
- (4) \$1 small coin, issued in August, 1914, for the Provincial Bank of Kwangtung Province, but surcharged Bank of China.
- (5) \$5 small coin, intended for issue by the Provincial Bank of Kwangtung Province, dated 1913, but surcharged Bank of China. Printed by the American Banknote Co.
- (6) 50 cents small coin, dated 1912, and issued by military governor Cheng, whose portrait adorns the obverse, while the reverse shows Chinese inscriptions, promising redemption in silver.\*
- (7) \$2 small coin; as foregoing. †
- (8) \$10 small coin, issued by the Kwangtung Industrial Bank (Kwangtung Sat Yip Bank), dated 8th November, 1916.
- (9) \$50 small coin; as foregoing.
- (10) \$5 small coin, issued by the Kwangtung Industrial Bank, dated 1918. Inscriptions in Chinese and English.
- (11) \$1 small coin, issued on January 1, 1918, by the Provincial Bank of Kwangtung Province. Obverse shows a pagoda in the center. Printed by American Banknote Co.
- (12) 50 cents small coin, issued under date of 1st January, 1922, by the Provincial Bank of Kwangtung Province and printed by the American Banknote Co.
- (13) 20 cents small coin; as the foregoing.
- (14) \$5 small coin, dated January 1, 1918, issued by the Provincial Bank of Kwangtung Province and printed by American Banknote Co.
- (15) \$10 small coin; as foregoing.
- (16) \$50 small coin; as foregoing.
- (17) \$1 small coin, issued in 1923 by the Central Bank of China (Kwangtung), green shade, portrait of Dr. Sun Yat-sen. Printed by American Banknote Co.
- (18) \$100 small coin; as foregoing.
- (19) \$5 small coin; as foregoing; red color.
- (20) 25 cents small coin, issued in 1929 by the Central Bank of China (Kwangtung). Legends in Chinese only. Printed locally.
- (21) 10 cents small coin; as foregoing.
- (22) \$10 small coin, dated 1923; green color; as No. 18.
- (23) \$50 small coin, red color; dated 1923; as foregoing.
- (24) \$100 small coin, 1923; dark-brown shade; as foregoing.
- (25) \$1 small coin, dated 1929; yellow and grey.
- (26) \$5 small coin, dated 1929; yellow.
- (27) \$10 small coin, dated 1929; ochre and grey.
- (28) \$50 small coin, dated 1929; blue and green.
- (29) \$100 small coin, dated 1929; green and red.
- (30) \$1 small coin, dated January 1, 1932.
- (31) \$5 small coin; as foregoing.
- (32) \$10 small coin; as foregoing.
- (33) \$50 small coin; as foregoing.
- (34) \$100 small coin; as foregoing.
- (35) 10 cents small coin; 1932.
- (36) 20 cents small coin; as foregoing.
- (37) 50 cents small coin; 1932.

Besides, the Municipal Bank of Canton issued banknotes in denominations of \$50, \$10, \$5 and \$1, as well as 20 and 10 cents.

### Reports from the Chinese Customs on Kwangtung Banknotes.

The parties in charge of the administration of paper money, not merely in Kwangtung, but equally\* so in other provinces, never envisaged publication of statistical data or particulars relative to the career of their fiat money. This was partly due to irresponsible views held by the officialdom; but in part it was due to the recognition of the fact that—generally speaking—the handling of the banknotes problem was nothing to be proud of.

Under such circumstances it is considered exhilarant that there exist reliable records concerning the course of action which paper money took. Once every ten years the Chinese Maritime Customs Administration, until the early 1940s under foreign guidance, published reports from every Customs district in form of Decennial Reports. Such record dealt with every phase of commerce, industry, currency and finance, calamities, etc., etc. which applied to the decade. By necessity every group was dealt with in brief compass only. But nevertheless, the news supplied bore the seal of veracity. Therefore, one has to welcome the existence of this source of information and profit by its availability.

Those Decennial Reports appeared first in 1901 and covered the period from 1892; they made their last bow in 1931. When quoting from that source, we shall precede the requisite remarks by the port whence they originate, plus the decade to which they refer.

(Canton 1902-1911). As the 20-cent pieces by the provincial mint in 1904 proved unsatisfactory, the Kwangtung Provincial Bank was established a year later and issued \$1,000,000 in one-dollar notes against deposits supplied by the provincial Treasury. The notes called for 'small coin', viz., 10 and 20 cents in silver. Over-issues resulted in depreciation, and in 1910 the notes stood from 6 to 10% discount compared with Hongkong currency. A further issue of some 100,000 notes in different denominations, namely \$1, \$5 and \$10, was made in 1908; but it was said that full value of these notes also was sustained, and ultimate withdrawal resulted.

(Canton, 1912/21). A series of misfortunes befell the Bank of China after it had opened a branch office in 1914. Government interference often made it impossible for the bank to continue business; consequently its \$1-notes in 1921 stood at a discount of 70% of face value. Hongkong money fell to a discount vis-a-vis Canton's currency in 1919 of 8% from an original premium of 23½% in 1914; however, by 1921 it had once more risen to a steady premium of 15%.

(Canton, 1922/31). In 1925 the Central Bank of China (Kwangtung) issued for the first time notes in local subsidiary currency, namely for a total face value of \$10,000,000. Due to the confidence placed in them, the issue was increased to \$27,000,000 in the following year in order to meet market requirements. This paper currency was later on subjected to violent fluctuations, commanding in normal times a premium of some 3%, and suffering during political disturbances discounts amounting at times to 80%. Naturally, such variations repeatedly created serious situations in the money market, leaving disastrous effects upon the trade of the province. Various remedial measures were adapted and adopted by the provincial authorities, prominent amongst which were the issue of short-term Treasury Bonds, the flotation of public loans, etc., so that a sinking fund for note-stabilization could be inaugurated. While such measures brought about a rapid restoration of the depreciated currency to its face value, political changes have, however, adversely affected its circulation. At the close of the decade, Kwangtung Central Bank of China's fiat money was quoted at a discount of some 5%. The

\* \$1 and \$5 also were issued at the same time, but for circulation in the Shanghai district only.

† The Military Government of Kwangtung really was the successor of the Kwangtung Official Silver Mint as issuer of notes. In turn, it was succeeded in that function by the Kwangtung Industrial Bank.



notes issued by the Canton Municipal Bank have invariably remained steady, and political upheavals have never affected them to any serious extent. When this Customs report was written, it was said that the financial Commissioner of Kwangtung contemplated the placing into traffic of \$10,000,000 'big dollar' banknotes.

(Swatow, 1902/11). Dealing with monetary conditions in Swatow, the Decennial Report of the Customs for 1902/11 states that about 20 banks were doing business there, all of which were of the native bank type, except the Ta Ching Government Bank and the Bank of Communications. All of the local banks issued paper money, ranging in value from 1 to 100 dollars, of a standard value of 7 mace to the dollar. It was then estimated that such notes to the value of  $2\frac{1}{4}$  million dollars were in circulation at Swatow in 1911. This would have been a convenience were it not for the fact that none of the issuing banks held adequate silver reserves and that failures amongst them were a frequent occurrence.

(Swatow, 1912/21). In the beginning of the Revolution financial difficulties were encountered by the Kwangtung Government. To procure funds for paying the numerous troops, government notes were emitted as a temporary measure, followed by the imposition of taxation and—under military rule—of forced loans, rapidly absorbed by the regimental chests. The number of local banks had increased from 20 in 1911 to 35 in 1921, in addition to which there existed a number of exchange shops, 28 of which issued notes. The larger banks were divided into two groups representing territorial divisions, between which friction had occasionally arisen. Notes in circulation were of two kinds, those in subsidiary coins and those T.P. (*Chihping*) currency of 7 mace per dollar, which were the chief medium of exchange at Swatow, although their circulation was somewhat restricted in the neighbourhood owing to the lack of adequate reserves and the frequent failure of banks in recent years. Bank of China notes were withdrawn after having been in circulation for a short time. Those of the (Japanese) Bank of Taiwan, which were in favour at one time, have ceased to circulate owing to the boycott. Local notes have at various times, on the approach of contending troops, been destroyed in order to prevent their falling into the hands of the soldiery.

(Swatow, 1922/31). It was decided that the Chihping (tael) standard should be abolished on June 1, 1925, and silver dollars employed instead. Furthermore, that old obligations in Chihping taels should be liquidated after June 1 in silver dollars at the rate of silver \$1 = 0.70 Chihping taels; and that the notes calling for Chihping taels, after having been stamped as dollar notes, might have been used as such for the time being. The resolution was actually given effect on June 1, though with considerable objection from the native bankers, whose interests were seriously affected by the change of standard. Henceforth dollar notes were in circulation at Swatow, aggregating about \$9,000,000.

In 1935 conditions in connection with banknotes in Swatow were distinctly bad. Paper money emitted by the local Chamber of Commerce was estimated at about \$8,000,000, while native banks were responsible for another \$4,500,000. This comparatively large issue lacked adequate reserves, and in consequence the notes stood at a discount of about 70%.

(Lappa, 1902/11). In January, 1905, the then Viceroy of Canton issued government notes of the value of \$1, \$5 and \$10. These notes became popular, because their face value was the same as that of the fractional coins which formed the ordinary medium of exchange. After the change of government in Canton, these notes for a time ceased to be current in the market. Subsequently, all the fiat money that bore the endorsement of the Canton Chamber of Commerce was officially recognized by the local Government, and they were since accepted at Lappa. Silver dollars and copper cash were rarely seen in the Lappa district in 1911, and the copper cash were replaced by copper cents coined in the provincial mint.

(Lappa, 1922/31). In view of the constant depreciation of provincial banknotes caused by political changes, it had long been the practice amongst the people to adopt Hongkong banknotes as the medium of exchange. The Hongkong notes were then accepted by everyone.

(Kongmoon, 1902/11). Customs reports from Kongmoon state that the Place of the provincial dollar has to some extent been taken by the provincial banknote, and that the prejudice

of the farming classes against paper money seems to have considerably decreased, seeing that 20 to 30% of the money in use was said to have consisted of paper, the remainder being principally small coin. These provincial banknotes were first seen in the 31st Year of Kuang-hsu (1905), and about two years later had established themselves in the market. The total value represented by them is now higher than that of provincial dollars. That banknote was based on the small silver coin currency, and not on the silver dollar. In the winter of 1911 these notes have been partly withdrawn from this district, either to be cashed in Canton, or to be stamped by the Revolutionary Government, for no banknote not so stamped was officially recognized after a certain period. The Hongkong banknote then had a wide circulation in the Kongmoon district. Formerly it was accepted at a discount; but since the opening of the port, when Kongmoon entered into direct business relations with Hongkong, they have been sold at a premium. The Revolution caused a further drop in the value both of provincial paper money and of the imperial banknote, which latter then was just coming into favor.

The next decade seems to have been rather uneventful for the career of paper money in Kongmoon, for we are merely told that the Bank of China opened a branch office there in 1915, but deemed it judicious to again close it in 1916, when Kongmoon was threatened with attack. The end of the second decade witnessed the opening of an office by the Provincial Bank of Kwangtung which enjoyed an increasing note circulation. The happenings of the period from 1922 to 1931 are described by the Customs in the following strain:

During the decade Hongkong 10 and 20-cent pieces and Hongkong banknotes were in general circulation in Kongmoon. But in 1929 the provincial authorities prohibited the use of foreign currencies, and in 1930 the Central Government placed an embargo on the importation of foreign silver coins. The branch office of the Provincial Bank of Kwangtung, which had opened a branch at Kongmoon during the preceding decade, was totally unable to redeem its large note emission, and in 1926 had to close its doors, thereby causing considerable distress. In 1924 the Central Bank of Kwangtung established a branch office at Kongmoon, and same continued to function when the third decade came to a close.

(Samshui, 1912/21). In 1912 the Kwangtung Military Governor endeavored to relieve the stringency of the local money market and put into circulation new banknotes on an extensive scale, without possessing adequate silver reserves. As a result the public did not support the scheme. These notes stood at 15% discount a few days after their issue, and although the Chinese banks were willing to negotiate them, they were not accepted by the foreign banks in Canton. In September of the same year the Military Governor ordered that the Provincial Government notes were to be accepted at par, but the discount on subsidiary coins was immediately raised from the usual 4% or 6% to about 20%. As it became impossible to redeem paper notes at Samshui, the local merchants complained and requested permission to send subsidiary silver coin to Hongkong, in order to acquire there clean or 'chopped' silver dollars. However, as there was then an embargo in force interdicting the export of silver from China, the request could not be complied with.

At the beginning of 1914, the provincial notes were accepted at Samshui at 60% of face amount; in June they declined further, so that a dollar note was worth merely 37 cents in cash. The Government, after seeing that the situation had become intolerable, decided to call in all notes and redeem them with Bank of China fiat money at the rate of \$0.45 per dollar. At the close of 1914 the clean silver dollar was exchanged for notes emanating from foreign banks at a premium of 10% and for Bank of China notes at a premium of 5%. The banknotes, having been limited in volume, soon appreciated in value. The average exchange rate for the following two years was Hongkong banknote of 1 dollar = clean silver \$1.10, or 127 copper cents, or \$1.18 in 20-cent pieces (5 pieces @ 20 cents = 880 pure copper cash). Silver became very scarce in 1919, as the Hongkong Government maintained its embargo against the exportation of silver ever since the beginning of World War I, thus causing a depreciation of paper money.

There was a great demand for silver, and merchants found it more difficult than ever to render payment in coin. This



embargo was removed in 1920 and silver again circulated freely. Compared with small coins, Hongkong dollar 100 (notes) gradually rose in value up to \$118 small coin. During the last quarter of 1920, as soon as General Chen Chiung-min scored his easy victory in the struggle against the Kwangsi army and became Military Governor of Kwangtung Province, Bank of China notes were no longer accepted as legal, this bank then having been the official organ of the Peking Government, with which the Cantonese party had severed connection. The Bank of Kwangtung was instituted at the end of 1920 under the auspices of the high provincial authorities who issued new notes for circulation to replace the Bank of China notes. During the last year of the decade there were no violent fluctuations to be recorded in the money market. The Bank of Kwangtung notes circulated freely and were acceptable at par.

(Samshui, 1922/31). The small coin dollar notes issued by the Provincial Bank of Kwangtung in 1920, to replace the Bank of China notes, were the only provincial paper money in circulation in Samshui in 1922. Owing to heavy depreciation in value, due to political changes in the provincial Government, these notes were withdrawn from traffic at the beginning of 1923. In August, 1924, the Kwangtung Central Bank of China, vested with the authority for issuing small coin dollar notes, came into existence. The notes issued by the bank have been circulating during the entire decade and were accepted by the general public in normal times at par against hard cash; but at the time of the Red outbreak in Canton (in December, 1927), they were only worth 25 to 30% of their face value in terms of hard cash. Whenever political troubles arose in the provincial capital, there were wild fluctuations in connection with such fiat money. In 1928 the tax-collecting officials refused to accept them, thereby causing panic amongst the mercantile community. After a few months, however, when the Government had sealed up 10 million dollars worth of these notes, to show its determination to effect financial adjustments, the notes were accepted at 90% of their face value. On April 29, 1931, there was a run on the Kwangtung Central Bank of China in Canton owing to a political upheaval, and the notes registered a heavy discount. In the succeeding months, when the news that the Canton authorities would sever their relations with the Nanking Government reached the port of Samshui, local merchants refused to accept these notes. In November they regained the confidence of the public through the efforts of the provincial authorities, who once again took steps to seal up the notes in possession of banks and business houses. It then was authoritatively reported that the (Kwangtung) Central Bank of China would be reorganized into the Kwangtung Provincial Bank on January 1, 1932, and that new provincial fiat money would gradually replace Central Bank of China notes then outstanding.

The withdrawal of the Bank of Kwangtung notes from circulation in 1923 deprived the populace of the employment of paper money until August, 1924, when the Central Bank of China was inaugurated in Canton. During the interval, the ubiquitous 20-cent piece served as a medium for small transactions in Samshui. The temporary absence of paper money naturally caused much inconvenience to the public owing to the circulation of counterfeit coins and, moreover, in sending money inland, one had to run the risks attendant on the transport of hard cash. Yet, the Central Bank of China (Kwangtung) notes did not enjoy the public confidence from the outset. It was the custom with local merchants to exchange such notes whenever their holdings reached an appreciable amount. This was, of course, a transitory phase, and in a short time normal circulation of the notes was secured. In March, 1919, the bank obtained new small coin dollar notes in different denominations, and these were still in circulation by 1932. It was reported that the aggregate of such notes issued totalled some 29 million dollars (small coin).

(Pakhoi, 1912/21). During the first decade of the 20th century small coin dollar notes were found in circulation at Pakhoi. Usually such fiat money stood at about 5% below par. Dealing with the happenings of the second decade ended 1921, the Commissioner of Customs reported from Pakhoi that no noteworthy change was to be recorded in the matter of local currency, except the very much smaller amount of Canton paper money in circulation. During the greater part of the decade under review, such notes were almost entirely absent

from the port. Then the principal currency there was the 20-cent silver piece (the 10-cent denomination was uncommon), and also copper cents and old cash.

In 1913/14 the *Likin* offices and barriers were accepting provincial paper money at its face value, although the market value at that time was some 30% or 40% below par. A certain amount of Indochina banknotes (emanating from the Banque de l'Indo Chine) were usually found in Pakhoi, but these were only in demand when settlements with Tonkin were being made, or when large cash deposits were requisite at the Maritime Customs office. The paper currency of the foreign banks in Hongkong was from time to time throughout the decade at a considerable discount, and at one period was obtainable at the rate of Hongkong \$100 for \$83 local money in the shape of 'chopped' dollar pieces.

(Pakhoi, 1922/31). In 1922 there was an attempt to introduce notes into the district which—although depreciated—were in circulation in Canton; but this intention met with determined opposition from the merchants. As a protest, the latter suspended business on July 31, 1922, and did not resume until the 5th September of the same year. The project was abandoned when the mercantile community agreed to purchase a part of the consignment of paper money which had been received by the military for the payment of troops composing the local garrison.

(Kiungchow, Hainan Island). The Bank of Communications, acting as the Customs bank, opened a branch office in Kiungchow, but toward the end of 1911 closed down. The bank tried to place its notes into circulation by issuing part of the salaries of the Customs staff, and also by making its fiat money legal tender for payment of Customs dues. However, the attempt met with no success.

In his report for the period 1912/21, the Commissioner of Customs at Kiungchow supplies the following particulars: In 1913 a large quantity of Kwangtung paper money was brought in by the local Treasury to meet the rations of the soldiers stationed on the island. Merchants bearing in mind that paper money had previously become a very serious obstacle to trade, placed but little confidence in it and showed their preference for silver dollars of any nationality. In November, 1914, a branch office of the Bank of China was established in Hoihow, and at the outset did a fairly good business. However, the bank closed its shutters in November, 1918, on account of disturbed domestic politics, refusing to advance funds on any security, when the rate of discount of Hongkong banknotes reached 9%. After re-opening in 1919 for one year, the bank once again closed its doors due to another political upheaval in September, 1920. The depreciation of fiat money at Kiungchow proceeded so far that by 1922 the Bank of China had not yet re-opened for business. The Kwangtung Provincial Bank established a branch office at Hoihow in December, 1921.

(Kiungchow, 1922/31). The South Kwangtung Industrial Bank was established in 1925 and closed in 1926. During this time banknotes were issued, but not accepted in the market. In June, 1928, the (Kwangtung) Central Bank of China opened a branch office at Hoihow, and its banknotes of various denominations were welcomed in the market, the total amount emitted being \$300,000. Owing to the local uneasiness in January, 1930, there was a general run on the Central Bank of China (Kwangtung), since which time no paper money has circulated at Kiungchow. (At least not until 1931, when the report was submitted).

Light is thrown on conditions prevailing at Canton in 1912, when an issue of local banknotes was contemplated. The correspondent there of the "North China Daily News" (Shanghai), writing under date of September 30, narrates that, since the authorities were badly pressed for money, they had no other means left than channeling paper money into the market. The notes fluctuated wildly, depreciating at times up to 20%.

Finally, the local Treasury called together a council of the leading members of the mercantile community. At the meeting it was decided to fall in line with the request of the officials and accept and pass on the notes at par. They furthermore passed a resolution that those who refused to accept the situation should be expelled from the membership and privileges of the Chamber of Commerce.

Naturally, nobody could force small shopkeepers and hawkers to accept the notes. Neither were the country people



## Rice & Wheat Output in China

Peking claimed that a national record per-hectare yield of early rice of 83.28 tons had been reached in Anhwei and that the highest 1958 national winter wheat yield of 54.9 tons per hectare was recorded in Honan. Total rice crop and wheat harvest this year is claimed to be much higher than in 1957. As usual, there is no way to verify these reports from Peking which impress foreign observers usually as being compiled by a propaganda bureau.

**Rice Crop**—The early rice crop which is now being harvested in China is estimated at 40 million tons, double that of 1957, according to a preliminary survey made by the Ministry of Agriculture. This will be the biggest in Chinese history. In Szechwan, the country's biggest rice-growing province, it is expected to come to five million tons, more than double last year's. Hunan has harvested good crop of early rice on a very large area. A per hectare yield of four and a half tons of dried rice, more than one-third above that of 1957, has been gathered on 335,600 hectares of land. Dried rice, which has been aired and sifted from mixed elements, represents approximately 20% more fresh cropped rice. This province has planted 1,405,000 hectares of early rice. Many rural districts and agricultural cooperatives have obtained an average per hectare yield of four and a half tons. A per hectare yield of 30 tons or 37.5 tons has been garnered on numerous small areas. A number of counties with previous high yields have made good increase and low yielding counties have become high-yielding ones. In Liling County, well-known for high yield, it is estimated that a per hectare yield of over six tons will be obtained on the 32,800 hectares of early rice, doubling that of last year. In Yichang, an average per hectare yield of four and a half tons has been gathered, three times that of 1957. In Pingkiang, which is on very high mountain and has a long winter, three counties have obtained an average per hectare yield of seven and a half tons, more than double that of last year. The highest per hectare yield there reached 20.3 tons.

Large areas with a good harvest of early rice are also reported from Hupeh, Anhwei and Kweichow. Bumper harvest of early rice is being gathered in Hupeh on 330,000 hectares. A per-hectare yield of 11.2 tons has been reached in 1,028 agricultural cooperatives. A national record per-hectare yield of early rice of 83.28 tons has been taken in Anhwei on an experimental plot of 55 mou (15 mou equal 1 hectare). The previous highest figure was about 69 tons. In the mountainous area of the northern part of Kweichow a rich harvest of early rice is being gathered in Chihshui County on over 3,300 hectares. A per-hectare yield of 6.8 tons has already been taken in from over 1,100 hectares. The per-hectare yield is more than double that of 1957. An average per-hectare yield of over 7.5 tons of early rice has been harvested on 40,000 hectares of the Soochow Administrative Region in Kiangsu. This is 165 per cent above the per-hectare yield of early rice last year. In other major rice areas—Chekiang, Kwangtung and Kiangsi—the crops are also expected to go up by more than 100 per cent.

Peking boasted that cooperative farmers have achieved this spectacular rise in paddy output mainly by improved irrigation facilities, heavy application of manure and close planting. An average of 500 tons of manure and compost were applied to every hectare of land in many provinces, three or four times the amount used last year. Close planting was practised extensively. In general half a million to three quarters of a million clusters of rice seedlings were planted to

every hectare of land. This is twice or three times the number planted in 1957. Three crops of rice are now grown in China annually. The first crop of early rice, which is cultivated in the area stretching from the Yangtze Valley to the southern provinces, is planted in early spring and reaped in June and July. It covers more than 10 million hectares. The second crop, called "middle rice," mainly grown in the Yangtze Basin and the northern half of the country, is planted in late spring and ripens a few weeks after the harvesting of the early rice crop. The current middle rice crop is putting forth ears and doing very well. This crop is grown on an area slightly larger than the early rice acreage. The third crop of the "late rice" is now being planted on the land from which the early rice crop has been harvested.

**Wheat Harvest**—China has gathered a record winter wheat harvest of 34.45 million tons, according to the Ministry of Agriculture. This is 13.95 million tons, or 68 per cent more than the total output of winter wheat in 1957. The average per hectare yield this year is 1,447.5 kilogrammes, 71 per cent higher than last year's. In addition, three million hectares of spring wheat in the country has not yet been harvested. The total output is estimated at 4.5 million tons. Kucheng County in Hupeh and Menghsien County in Honan registered wheat yields averaging over 4.5 tons per hectare. According to incomplete statistics for Shansi, Hopei, Shantung, Honan, Shensi, Kiangsu, Anhwei and Hupeh provinces, the yields on a total of 616,000 hectares of wheat fields reached 3.75 tons or higher per hectare. A breakdown of figures shows that the yield on a total of 50,200 hectares of wheat fields was above 7.5 tons per hectare, but below 15 tons per hectare; the yield on a total of 282 hectares was above 15 tons per hectare but below 22.5 tons per hectare; the yield on 19.16 hectares was above 22.5 tons per hectare but below 30 tons per hectare and the yield on 2.26 hectares was above 30 tons per hectare but below 37.5 tons per hectare. In the Peace Agricultural Cooperative in Siping, Honan, a two mou (one mou is one-fifteenth of a hectare) plot of experimental land yielded 3,660 kilogrammes per mou, (equivalent to 54.9 tons per hectare). This was the highest 1958 national winter wheat record.

This year's bumper summer harvest, according to Peking, was not due to favourable weather conditions. It was won after a series of arduous struggles. A drought which lasted 80-100 days took place last year around the wheat sowing season. Sowing on 6.6 million hectares of wheat fields was carried out after successfully combating drought. In most of the wheat areas, no saturating rain fell from wheat sowing to the harvest time. This spring, the wheat crops in many areas were affected by frost two or three times. Serious wheat rust and mold disease occurred and wheat midges appeared in many places. Some areas were attacked by hail, windstorms and heavy rains (this decreased the output of food crops by five million tons). The high tide in agricultural production had not begun last year before the wheat sowing season. Only a part of the wheat areas paid attention to deep ploughing, abundant manuring, close planting and the use of good seed. This was in addition to the problem of fighting against drought during wheat sowing. In most of the areas, inadequate preparations were made for agricultural production, the land was not ploughed deep enough, the amount of manure applied before sowing was not sufficient and the sowing was not very well done. The bumper harvest therefore is due mainly to the "continuous overcoming of right conservatism, to carrying through the general line for socialist construction, full mobilisation of the masses, overcoming natural calamities and more intensive field work in various places during the later stages of the wheat growth, after the nation-wide rectification campaign and the struggle against the bourgeois rightists."

The People's Daily in Peking opined that Chinese farmers should further increase the wheat output. It pointed out that the national average per-hectare yield had not yet reached 1.5 tons, yet the highest per-hectare yield was 54.9 tons. This showed great potentials still existed in raising wheat output. "It is now entirely safe for us to say that the Chinese people can determine the increase in their grain output according to their needs," the paper harangued.

willing to freely deal in the new paper money, though the officials endeavored to explain the position and point to the readiness of the Canton populace freely to accept the new banknotes.

Under date of December 22, 1913, the same source reported that government notes had fallen to 65% and below of face amount. Governor Li Hoi-sin issued a proclamation, stating that those attempting to use them at less than 75 cents should be punishable with death under martial law. In spite of this warning, many people were clandestinely discounting the fiat money at lower levels.



# THE FOREIGN TRADE OF JAPAN

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## Foreign Trade in Japan's Economy

Japan is only poorly favored with natural resources. Rate of self-sufficiency in major foodstuffs, fuels and raw materials, or the percentage of their domestic production in the gross amount of supply in Japan is given in Table I.

As regards foodstuffs, while Japan is nearly self-sufficient in rice, she depends on import for a great quantity of wheat. Rate of self-sufficiency in wheat has turned especially worse after the war as bread eating and other flour diet have grown very popular and demand for wheat has remarkably increased. As for industrial raw materials, raw cotton and wool which are among the most important items are not produced in any quantity in the country; production of iron ore amounts to not more than 20% of domestic demand. As to fuels, Japan is nearly self-sufficient in coal, while she has to depend on import for the most part of petroleum that she needs, which has risen in importance after the war.

Twenty-eight per cent of Japan's national income was produced in manufacturing industries and construction business in 1953. Japan in this position may be regarded as an industrialized country. Hence if she is to develop her industries which form the mainstay of the economy of Japan as an industrial country, she has to increase her import of raw materials and fuels. In other words, she can develop her industries only by increasing the import of these goods. It goes without saying that in order to increase import it is necessary to increase export at the same time to finance it. Therefore, Japan must increase her export to earn foreign exchange whereby to import more raw materials and fuels before she can attain her economic progress.

The percentage of the import of foodstuffs, raw materials and fuels in the national income shows that Japan is not rich in natural resources. National income represents the gross amount of added value that a country produces. Therefore, the percentage of the import of foodstuffs, raw materials and fuels in the national income shows how far the production of added value in each country is dependent on the import of these goods. The Table II shows the percentage of the import of foodstuffs, raw materials and fuels along with that of raw materials and fuels, in the national income in various countries.

Japan is remarkably over-populated. Overpopulation means that, after all, population is too big in relation to the added value produced. Therefore, the phenomenon of over-population will necessarily lower the living standard of the people. It is very difficult to make a comparative evaluation of the living standards of the countries of the world. How accurately the amount of per capita national income calculated in U.S. dollar represents the living standards of different nations involves various questions. But it cannot be denied that it offers a clue to an international comparison of living standards. In 1953 per capita national income of Japan amounted to \$188, which means that Japan stands the 32nd on the list of 65 nations of the world. This is far below \$1,928 of the United States, \$816 of Great Britain, \$699 of France, \$505 of West Germany, \$500 of the Soviet Union and \$299 of Italy. In order to raise the low living standard of the Japanese people, her industries must be further developed. For industries to make development, the import of raw materials and fuels must increase; when industries make progress and the living standard of the nation improves, the import of foodstuffs will also increase. For import to grow bigger, an increase of export is necessary to finance it. Hence it follows that for Japan's economy to make progress and her population problem to be solved, it is a prerequisite to increase her export.

Thus it may be stated that foreign trade holds the key to the life of Japan's economy. Nevertheless her foreign trade, especially export trade, is not in a satisfactory condition. In other words, her foreign trade, especially export trade, must further increase and is in a position to do so. To prove it, let us examine how much of the added value domestically pro-

duced is being allocated to export. The Table III shows the rate of export to the gross national production.

Countries like the Netherlands, Norway, Denmark, Sweden, West Germany, Great Britain, etc., which are considered in the Table II to be highly dependent on foreign countries or overseas territories for foodstuffs, raw materials and fuels, are all allocating more than 20% of their national production to export. In the case of the Netherlands, Norway and Denmark, the ratio is more than 30%. Compared with it the ratio of 13% in the case of Japan is too low. Particularly, it must be noted that the figure of 13% includes extraordinary elements such as special procurement which will be mentioned later, and the ratio when limited to ordinary export only falls as low as 8.5%. Japan must assign a bigger portion of her gross national production to export, which it is not impossible to realize. That will be the essential condition for developing her economy.

Table I

### Rate of Self-sufficiency in Important Raw Materials

Item of Goods	Percentage	
	before the war	after the war
Rice	81.5	90.0
Wheat	84.0	56.4
Lumber	80.0	96.2
Raw Cotton	0	0
Raw Wool	0	0
Coal	79.0	91.3
Crude Oil	6.0	5.5
Iron Ore	13.0	20.5
Phosphorus Ore	0	0
Salt	33.0	20.0
Raw Rubber	0	0
Sulphur Ore	100.0	100.0
Sulphur	100.0	100.0
Limestone	100.0	100.0

Remarks: Figures before the war represent the average of 1934-36. Figures after the war represent 1952/53 for rice, 1951/52 for wheat, 1951 for salt and 1953 for other items. (Source: Records of the Ministry of International Trade and Industry and of the Ministry of Agriculture and Forestry).

Table II

### Percentage of Import of Foodstuffs, Fuels and Raw Materials in National Income in Various Countries in 1954

Name of Country	Import of Raw Materials and Fuels	
	Import of Raw Materials and Fuels	Import of Foodstuffs, Raw Materials and Fuels
Netherlands	16.3%	24.0%
Denmark	9.3	15.3
Great Britain	8.3	16.1
Japan	8.2	12.0
Italy	7.6	9.8
Portugal	6.7	9.3
West Germany	6.6	11.6
Norway	6.5	11.2
France	6.1	8.7
Sweden	5.9	9.1
Canada	4.1	6.4
Brazil	2.5	4.0
Mexico	2.2	3.0
Argentina	1.5	6.9
United States	1.1	2.1

Source: The United Nations Monthly Bulletin of Statistics, as for national income, and the United Nations Yearbook of International Trade for 1954, as for amount of import of foodstuffs, raw materials and fuels.



Table III

The Rate of Export of Goods and Services to the Gross Domestic Production in Various Countries in 1954

Name of Country	Percentage
Netherlands	49%
Norway	36
Denmark	30
Ireland	30
Sweden	32
West Germany	22
Canada	21
Great Britain	20
Finland*	19
Portugal	18
France	14
Philippines	13
Japan	13
Italy	11
United States	4

Source: The United Nations Monthly Bulletin of Statistics, December 1955.

Note: \* represents 1953.

## Trend of Japan's Trade

During and after the war Japan experienced a dire inflation, the value of currency falling down to nearly one three-hundredth. So, it does not mean much to make a long-range comparison of yearly amounts of her trade calculated in yen. Both during and after the war foreign exchange was under strict government control. Therefore the foreign exchange rate in those days cannot be accepted as representing the exact ratio of currency values between two countries. Nevertheless it will serve our purpose even better than the amount of trade represented in yen. The Table IV shows the amount of trade calculated in U.S. dollar at the exchange rate of those days. The figures do not include the trade of colonized territories such as Korea, Formosa, etc., nor do they include the trading of Japan proper with those territories. In other words, the figures in Table IV show the amount of trade between Japan proper not including colonized territories and foreign countries other than those colonies.

Table IV

Amount of Trade Calculated in U.S. Dollar

(Unit: million dollars)

Year	Export	Import	Balance
1926	958.1	1,114.0	-155.9
1927	940.2	1,033.5	-93.3
1928	916.1	1,020.4	-104.3
1929	990.2	1,021.0	-30.8
1930	725.4	763.1	-37.7
1931	560.4	603.8	-44.4
1932	396.4	402.5	-6.1
1933	469.3	483.5	-20.3
1934	649.8	684.0	-34.2
1935	720.9	712.4	+8.5
1936	782.5	803.1	-20.6
1937	914.5	1,088.3	-173.8
1938	762.7	766.2	-3.5
1939	918.0	732.0	+186.0
1940	856.5	808.9	+47.6
1941	621.0	679.1	-58.1
1942	419.9	410.3	+9.6
1943	381.2	450.8	-69.6
1944	304.1	455.9	-151.8
1949	509	904	-395
1950	820	974	-154
1951	1,354	1,995	-640
1952	1,272	2,028	-755
1953	1,274	2,409	-1,134
1954	1,629	2,399	-770
1955	2,011	2,471	-460

In terms of nominal value of U.S. dollar, the amount of export in 1950 stood at \$820,000,000. Therefore, it had almost recovered to the prewar level, and after 1951 rose above the prewar level substantially. In 1955 it had increased

to nearly double the prewar value. Import situation recovered quicker. In 1950 it had increased to nearly double the prewar value. After 1952 it rose to more than double the amount. One of the characteristics of Japan's postwar trade is the sudden rise in an excess of import over export. Even before the war, however, yearly excess of import over export during the period from 1951 to 1954 reached from \$600,000,000 to \$1,100,000,000. In spite of a leaping increase in export in 1955, the excess of import stood at no less than \$460,000,000.

The Table IV gives the amount of trade shown in yen and converted into U.S. dollar at the exchange rate of the time. However, since the value of dollar has also gone down considerably in the meantime, these figures cannot be represented to show substantial scale of Japan's trade. It is really difficult to work out the substantial scale of trade leaving out only the change in the value of money. In a very rough way, however, we have worked out the amount of Japan's trade in the value of dollar in 1926 by deflating the amount of trade dollar value at the effective exchange rate by the wholesale price index numbers of the United States. The figures are given in Table V.

Table V

Japan's Trade in the Value of Dollar in 1926

(Unit: million dollars)

Year	Export	Import	Balance
1926	958.1	1,114.0	-155.9
1927	985.3	1,083.1	-97.8
1928	947.2	1,055.0	-107.8
1929	1,038.7	1,071.0	-32.3
1930	839.2	882.9	-43.7
1931	782.3	826.6	-44.3
1932	611.6	621.0	-9.4
1933	711.9	733.4	-25.5
1934	867.4	913.1	-45.7
1935	901.1	890.5	+10.6
1936	967.9	993.4	-25.5
1937	1,058.9	1,260.2	-201.3
1938	970.1	974.6	-4.5
1939	1,190.6	949.4	+241.2
1940	1,089.4	1,028.9	+60.5
1941	711.0	777.5	-66.5
1942	424.9	415.2	+9.7
1943	369.3	436.8	-67.5
1944	292.3	438.3	-146.0
1945	334.6	593.3	-258.7
1950	517.6	613.6	-96.0
1951	768.0	1,158.5	-390.5
1952	742.1	1,182.3	-440.2
1953	753.9	1,425.0	-671.1
1954	984.7	1,450.1	-465.4
1955	1,215.6	1,493.7	-278.1

Let us suppose that before the war Japan's trade was at just about the normal level during the period from 1926 to 1937 when the Sino-Japanese incident broke out. The average amounts of export and import during these twelve years are \$889,100,000 and \$953,600,000 respectively. On the basis of this prewar level, export rose above the level in 1954 and was 36% higher in 1955. Import reached the prewar level in 1951, and was 56% higher in 1956. During the period between 1926 and 1937 there were the lifting and resumption of the gold embargo in Japan, devaluation of dollar in the United States, etc., and the exchange rate of yen against U.S. dollar was not normal. After 1931 when the gold embargo was resumed, the exchange rate was fixed below par in the attempt to encourage dumping in Japan's export. After the war, foreign exchange continued to be strictly controlled and the exchange rate was prone to be fixed with political consideration. Under these circumstances, the exchange rate against U.S. dollar after 1926 cannot always be accepted to represent the real ratio of value between yen and U.S. dollar. So, we have worked out the amount of trade expressed in the value of yen in 1926 by deflating the amount of trade expressed in nominal yen by Japan's wholesale price index numbers. The figures are given in Table VI. As in the case of Table V, the average amount of trade between 1926 and 1937 was adopted as prewar average.



Table VI

Japan's Trade in the Value of Yen in 1926

Year	(Unit: million yen)	
	Export	Import
Prewar average (1926-37)	2,432	2,597
1946	173	311
1947	261	521
1948	504	585
1949	1,010	1,707
1950	1,507	1,776
1951	1,772	2,654
1952	1,632	2,629
1953	1,628	3,036
1954	2,097	3,110
1955	2,835	3,485

Represented in the yen value in 1926, the rate of recovery after the war is slower than when represented in dollar value. Export amounted to 2,835,000,000 yen in 1955, when it exceeded the prewar level by 16% for the first time. Import was quicker in recovery; it exceeded the prewar level in 1951 and was higher by 34% in 1955. Though it is difficult to make a precise comparison of the substantial scale of Japan's trade in 1955 with that before the war, it may be stated that in terms of monetary value export showed an increase of 16% to 36%, while import increased by 34% to 56%.

As has been stated already, the trade situation of Japan after the war is marked by a big amount of excess in import over export every year. While the average amount of import excess between 1926 and 1937 was \$64,500,000 in 1926 value, the excess amount in the same terms amounted to \$390,000,000 in 1951, \$440,000,000 in 1952, \$670,000,000 in 1953, \$465,000,000 in 1954 and \$278,000,000 in 1955. These figures stand for a remarkable increase in import excess. The total amount for 1949-55 period is \$2,600,000,000 or \$370,000,000 a year on an average, which is 5.7 times the yearly average before the war.

Apart from the trade in goods, Japan always showed a deficit in the trading of services in postwar years, too. As there was a big amount of deficit even in the trading of goods, the question remains of how the discrepancy has been made good. The deficit has been covered by dollars obtained through special procurement and aid. Special procurement comprehends demand for goods and services for military operations in Korea or for rear supplies of the United Nations forces, demand for the purpose of relief and rehabilitation of Koreans, demand for the purpose of mutual defence assistance in Asia and Pacific area, demand for the purpose of construction of military bases in Okinawa, demand in relation to forces stationed on the mainland of Japan, etc. To meet these demands, goods and services were procured from Japan and a big amount of dollars was paid in return. During the five years from 1950 to 1954 it amounted to \$2,907,000,000 which is equivalent to \$1,750,000,000 in 1926 value. On top of this, an aid of \$1,863,000,000 was given by the United States between 1945 and 1950, an equivalent of \$1,208,000,000 in 1920 value. The total sum of \$3,003,000,000 (in 1926 value) was used to offset the big amount of import excess during the postwar years.

Thus, Japan has been enabled to make up for the trade deficit by extraordinary revenues such as aid and special procurement. From this point of view, Japan is said not yet perfectly independent economically.

As is shown in Tables V and VI, the substantial value of trade both in export and import has now exceeded the prewar level to a considerable degree. However the rate of increase did not keep pace with the rate of increase in world trade as a whole. The Table VII shows the ratio of Japan's trade to the whole amount of world trade.

While the average for 1929-37 was 4.26% for import and 4.34% for export, postwar highs of 3.19% for import in 1953 and of 2.24% for export in 1955 are both substantially lower than the prewar level; that is, 26% lower in import and no less than 49% down in export. Japan's trade, particularly export, can only attain to its prewar level when it increases about double the present amount.

Table VII

Japan's Place in the Total Amount of World Trade (Percentage)

Year	(Percentage)	
	Import	Export
1929	3.58	3.65
1931	3.94	3.86
1932	3.88	4.01
1933	3.97	4.12
1934	4.40	4.48
1935	4.56	4.95
1936	4.75	4.96
1937	5.00	4.72
1950	1.62	1.46
1951	2.56	1.81
1952	2.56	1.76
1953	3.19	1.73
1954	3.05	2.13
1955	2.86	2.24

(First half)

Source: German Statistics Yearbook for 1929 to 1937.

The United Nations Yearbook of International Trade Statistics for 1948 to 1954.

The United Nations Monthly Bulletin of Statistics for 1955.

Japan's trade is not only lagging behind the rate of increase in world trade, but also it is behind the rate of Japan's economic progress as a whole. As was already seen, trade has exceeded the prewar level at any rate both in export and import. However, Japan's economy has expanded at a bigger rate. As a result, the rate of trade amount to the national income or the gross added value produced has returned to the prewar condition in terms of import, but is still considerably lower in export. The Table VIII shows the rate of trade amount to the national income before and after the war.

Table VIII

The Rate of Trade Amount to the National Income

Year	Export (%) Import (%)	
	Export (%)	Import (%)
1930	12.5	13.1
1931	10.9	11.7
1932	12.4	12.6
1933	14.9	15.4
1934	16.5	17.3
1935	17.3	17.1
1936	17.3	17.7
1937	17.0	20.3
1938	13.4	13.3
1939	14.1	11.5
1940	11.7	11.1
1941	7.3	8.0
1942	4.2	4.1
1943	3.3	3.9
1944	2.2	3.4
1946	0.6	1.1
1947	1.0	2.0
1948	2.6	3.0
1949	6.2	10.3
1950	8.8	10.3
1951	11.2	16.9
1952	8.9	14.3
1953	7.9	15.1
1954	9.6	14.1

If we take the average of 1930-37 as the prewar level, the prewar average of export was 14.8% and that of import 14.1% of the national income. The rate of import to the national income after the war is 16.9% in 1954; these figures are near the prewar level. However, the rate of export is very low. Even in 1954 when export showed a remarkable expansion, its rate was no more than 9.6% of the national income. In 1955, export showed a bigger increase, and its rate is expected to have exceeded 10%. Even then it is much lower than the prewar average of 14.8%.

If Japan is to develop her economy further and raise the living-standard of her people, she will have to assign about the same rate of her national income to export as she did before the war, and expand her export by the same rate against the whole amount of world trade as before the war. Japan's national income in 1954 amounted to 6,104,200 million yen. If the prewar rate of 14.8% of this is to be allocated to export, the amount of export should be in the order of 900,000 million yen. In 1954 the amount of export was 458,900 million yen; this amount would increase nearly twice as much. Then, Japan's economy would make further progress, entailing a greater improvement in the living standard of the people.

Deterrent to Export

In monetary terms, the amount of Japan's trade has already exceeded the prewar level substantially. But, in relation to the added value produced, her trade, especially export trade, has not yet reached the prewar level. In comparison with the whole amount of world trade, too, the amount of Japan's trade is far below the prewar level. It is the most urgent need for Japan's economy to expand her trade, particularly her export, to the prewar level. What circumstances, then, are hampering the expansion of Japan's export? By removing such causes, we can establish the right policy of expanding Japan's export.

Compared with advanced countries of Europe and America, Japan lagged behind more than one century in shifting to capitalistic economy. Japan made, therefore, a desperate effort to make up for the lag, but has not so far been able to fill up the gap. Especially, during the ten years of war, Japan was kept isolated from world economy, and the gap in the techniques of production was remarkably widened. Before the war, Japan resorted to low wages, exchange dumping, etc. for offsetting the disadvantages in competition which derived themselves from the above-mentioned lag. Even after the war wages are very low in Japan. However, as a result of development of labor unions, the wage rate in Japan has remarkably risen as compared with foreign countries. Furthermore, it became impossible after the war to take advantage of exchange dumping.

Inflation continued to develop in postwar years in Japan. If exchange rate falls in accordance with the rise in prices resulting from inflation, there will be no decline in the competitive power of Japanese goods as a result of the rise in domestic prices which is caused by inflation. But exchange rate remained fixed in spite of continued inflation. Consequently, the rise in domestic prices caused by inflation brought the prices of Japanese goods comparatively higher in the world market.

Japan endeavoured to introduce new techniques with pretty good success presumably. However, it must be admitted that the prices of Japanese goods are still comparatively high in the world market even now.

The Table IX shows the prices of important items of goods in various countries converted into U.S. dollar. It must be noted that it is especially true with the products of heavy and chemical industries that the prices of Japanese goods are high.

Table IX

International Comparison of Prices of Important Goods  
(Unit: U.S. dollar)

Item	Japan	United States	U.K.	France	West Germany	Belgium	Italy
Pig Iron (per ton) ..	72.20	53.63	37.16	67.40	68.62	70.30	—
Rod Steel (per ton) ..	109.3	89.6	74.4	88.7	98.2	88.3	—
Steel Plate (per ton) ..	143.1	88.5	83.2	—	103.5	—	—
Steel Sheet (per ton) ..	188.8	85.1	113.7	—	124.4	—	—
Cement (per ton) ..	24.4	—	—	—	17.1	—	—
Sulphate of Ammonium ..	65.14	—	—	—	54.5	—	—
Cotton Yarn (per lb) ..	0.62	0.64	0.57	—	—	—	0.61
Rayon Yarn (per lb) ..	0.63	0.78	0.79	0.79	0.87	—	0.81

Among the most important Japan's export goods before the war were raw silk and cotton fabrics. The average export of these two items of goods between 1930 and 1937 amounted to almost the same amount of 377,000,000 yen each year. Next to these in export amount was rayon fabrics; its annual average (1930-37) was far below the above-mentioned two items, accounting for 95,000,000 yen a year. The rate of the export of raw silk and cotton fabrics to the total amount of Japan's export was 18.3%. And the biggest destination of raw silk export

was the United States. The average of its export to the United States accounted for 88% of the whole export of raw silk.

The development of nylon and other chemical textiles before and especially after the war was really remarkable. Major part of demand for raw silk came to be replaced by these chemical textiles. The export of raw silk in 1955 fell to 18,000,000,000 yen, accounting for no more than 2.4% of the whole export. In terms of weight, its average annual export of 67,650,000 lbs before the war (1930-37) fell to 11,560,000 lbs in 1955. The annual average of the total export to the United States between 1934 and 1936 was \$148,000,000, of which raw silk accounted for \$88,000,000; in other words, raw silk formed 59% of the total export to the United States. Along with the sudden decrease in the export of raw silk, it may be imagined that the amount of export to the United States would also decline. As it was, instead of decreasing, it showed an increase in amount. In 1955 the export to the United States amounted to \$450,000,000. In terms of the average dollar value between 1934 and 1936, it means \$213,000,000. It shows an increase of 43% over the annual average export to the United States between 1934 and 1936. In the meantime, however, the amount of the United States import trade made a remarkable increase; and the rate of Japan's export to the total amount of import of the United States declined remarkably. Between 1936 and 1940 the average rate stood at 6.6%; in 1955 it fell to 2.6%. If the United States is to buy Japanese goods at the same rate as in the prewar years, Japan's export



to the United States should show a further increase. This fall in the relative position of Japan in the import of the United States is causing a big blow to Japan's export trade, for the United States is the biggest export market for Japan after the war as well as in the prewar years. Between 1930 and 1937 the average amount of export to the United States was 540,000,000 yen a year. It ranked first on the list, followed by China which imported 470,000,000 yen a year from Japan. In relation to the whole export amount, export to the United States accounted for 24.5% of the total amount, while China accounted for 23.0%. Export to the United States in 1955 amounted to 161,700,000,000 yen accounting for 22.3% of the total export.

China used to be an important export market next to the United States. As was mentioned already, the average amount of export to China between 1930 and 1937 formed 23% of Japan's whole export. Represented in U.S. dollar it amounted to \$150,000,000. In 1955, export to China amounted to \$28,500,000, which corresponds to no more than \$13,100,000 in the average dollar value between 1930 and 1937. The amount of export to China in 1955 fell to no more than 8.7% of that before the war.

As China was an important export market for Japan before the war, this remarkable fall in export means so big a blow to Japan's export trade. It would be hardly necessary to explain the reason for the fall in Japan's export to China. Though Manchuria, which is part of China, was not a Japanese colony before the war, it may be said that it was under Japanese control, politically and economically. Such control backed up the expansion of export to Manchuria to a great extent. Between 1930 and 1937 the average amount of export to Manchuria reached 11.5% of the whole export. As a result of

the Japanese surrender, not only did Japan perfectly lose control over Manchuria, but Manchuria became part of Communist China, and Japan's export to Manchuria was reduced to almost nothing. As for export to China other than Manchuria, we have to remember that China turned communist and diplomatic relations have not yet been established. In such relations it is natural that the trade between China and Japan should decline.

Especially, since the list of embargo goods to Communist China was widely enlarged after the outbreak of Korean war, Japan's trade with China turned further to decline.

After the war Japan could not make a satisfactory progress in export to the United States and China.

However, in South and Southeast Asian markets a considerably remarkable expansion was made. Between 1930 and 1937, the average amount of export to the Philippines, Thailand, Burma, Indonesia, Malaya, India (including Pakistan and Ceylon) was 133,000,000 dollars, or 6.5 percent of Japan's whole export. Export to these countries in 1955 rose to 380,000,000 dollars. Calculated in the value of dollar in 1930-37, it amounts to \$180,000,000, showing an increase of 35% in substantial value. In relation to the amount of whole export it represents an increase of 18.9%.

It is necessary for Japan which is the most highly industrialized in Asia to increase export to South and Southeast Asian countries further. These countries are being rapidly industrialized; and while they are endeavoring to attain self-sufficiency in light-industry goods as much as possible, they are in need of much capital goods. In order to attain an increase in export to South and Southeast Asia, therefore, Japan must concentrate her efforts on export of capital goods which these countries need.

## ECONOMIC LETTER FROM TOKYO

The Bank of Japan decided to lower official rates by 0.2 sen per diem per ¥100, i.e. 0.73% p.a. The rates were thus put back to the same level as before May 1957. They had been raised twice last year, in March and May, by 0.1 sen and 0.2 sen p.d., respectively. Now that the balance of payments has improved since last autumn and prices have fallen by about 10% compared with a year ago, the objective of the tightening of money is said to have been largely attained. Besides, it was judged that the reduction of the official rates would have little bad effects such as stirring up incentive for investment. In fact, the present action was not intended to give stimulus to business, but was chiefly aimed at restoring the flexibility of the official rates as a step to so-called "financial normalization". The rate on export advance bills remains unchanged. The Bank's higher interest rates are as formerly 0.3 sen p.d. (1.09% p.a.) above the official rates.

The Federation of Bankers Associations reached an agreement to voluntarily lower the maximum loan rates of banks by 0.2 sen p.d. (0.73% p.a.) excepting the rates on overdraft and export advance bills. As a result, the maximum loan rates of banks will be reduced from the present 2.5 sen p.d. (9.12% p.a.) to 2.3 sen (8.39% p.a.) in the case of ordinary bills, from 2.3 sen p.d. (8.39% p.a.) to 2.1 sen (7.66% p.a.) in the case of import settlement bills and commercial bills eligible for rediscount at the Bank of Japan, and from 2.8 sen p.d. (10.22% p.a.) to 2.7 sen (9.85% p.a.) in the case of overdrafts. As to the export advance bills, the rates remain unchanged at 1.8 sen p.d. (6.57% p.a.) for those eligible for rediscount at the Bank and 2.0 sen (7.3% p.a.) for others. Also, a 0.2 sen reduction in call-loan rates was agreed upon.

Governor Yamagiwa of the Bank of Japan explained recently his policy as follows: (1) That international cooperation to tide over difficulties in the world's trade is particularly desirable for our country, which gives foremost importance to the promotion of export, and he wishes to attend the general meeting of IMF this autumn, and to advocate this subject from

Japan's standpoint; (2) That the present system of managing Treasury funds has been in operation for many years, and the time has come for its review not merely from the point of regulating banking fund position, but from much wider viewpoint; (3) That the most important role of the monetary policy is to help keep economic soundness in ordinary times. To take various measures to cope with an emergency is rather easy. Trying to keep normal state of things always and prevent the recurrence of emergencies is the big task confided to the Bank of Japan. This is the point he emphasized at the recent meeting of the Federation of Bankers Associations. In discharging this duty, it is needless to say that official rate policy as well as higher interest rates and 'moral suasion' will be resorted to. But open market operations should be carried out more frequently hereafter.

The Government decided on taking necessary measures for the stabilization of raw silk and sericulture by an outlay of ¥15,000 million, of which ¥10,000 million would be used in buying up raw silk produced from spring cocoons at the lowest price quoted, and ¥5,000 million for assisting joint storage of dried cocoons. Buyings from silk-reeling farmers would also be made, provided that purchase at the lowest price quoted is assured. At the same time efficacious production curtailment would be carried out. As regards summer and autumn cocoons and raw silk produced from them, 20 percent curtailment of production would be made, while taking suitable steps for increasing demand for supporting prices. Some permanent plans for stabilizing the industry will be established without delay.

The export and import letters of credit received or issued in June amount to some \$190 million and \$160 million, respectively, according to the estimate of the Finance Ministry and the Bank of Japan. Thus, export is expected to fall below \$200 million level in succession to April and May, while import, even if somewhat greater than in previous two months, still tends to lag. Foreign exchange reserve is estimated to increase by some \$20 million to total \$722 million.

# THAILAND'S INTERNATIONAL TRADE IN 1957

By William Morrison

## Summary and Conclusions

The United States was Thailand's main trading partner in 1957. Trade turnover between the two countries amounted to 2,896 million baht (about US\$138 million), representing 18 per cent of total trade. Japan ranked second with 2,341 million baht. Next in order were Singapore—1,645 million baht, Hongkong—1,303 million baht and the United Kingdom—1,187 million baht. Taken together as a British bloc these countries accounted for about 25 per cent of Thailand's total trade.

Thailand's exports in 1957 were valued at 7,546 million baht, compared with 6,923 million baht in the previous year, and 7,121 million in 1955. About 50 per cent of export income was derived from rice exports. In the previous two years the percentage had been somewhat lower—45 per cent in 1955 and 41 per cent in 1956—but increased sales in 1957 brought rice back to the position it held in 1954.

Rubber, which had jumped to 25 per cent of total export income in 1955 because of favourable world prices, fell away to 22 per cent in 1956 and returned to its post-war average level of 19 per cent in 1957. Tin maintained its share of 6 to 7 per cent, which has been constant over the last few years. Teak, tapioca, castor seeds, maize, lac and fresh eggs were the principal minor exports.

Imports in 1957 were valued at 8,470 million baht, an increase of 900 million baht over 1956. A large part of this increase was accounted for by an increase in the import of machinery and transport equipment. Imports under this general head rose from 1,523 million baht in 1956 to 1,891 million baht in 1957.

Contrary to the emphasis one might expect in an underdeveloped country, capital equipment for development purposes constituted a relatively small part of total imports. About one-third of what is classed as transport equipment, for instance, represented passenger cars and motor cycles. Radio and television sets and spare parts accounted for about one quarter of imports under the heading of electric machinery and appliances. The largest homogeneous group of imports was textiles, which comprised 18 per cent of the value of all Thai imports. A surprising amount was spent on perfumes, toilet preparations, detergents and cleaners. Dairy products—mainly tinned condensed milk—amounted to 4 per cent of imports or five times the value of imports of agricultural machinery.

Certain import items, however, were clearly intended for development purposes. An excellent indicator, for instance, of the striking building boom in Bangkok and the larger towns, is the import of iron and steel which is mainly used for construction purposes. Some items, such as unmanufactured tobacco and raw silk and cotton are used in local industries where they are processed with Thai materials. Although the end product is a consumer item, the imports do promote domestic industry.

Despite a trade deficit in 1957 of 914 million baht (about US\$44 million) Thailand's international trade position remains good. United States aid and World Bank loans enabled Thailand to offset the trade imbalance in its balance of payments without any serious drain on its very ample foreign exchange reserves.

The immediate future can be looked forward to with optimism. Burma is no longer a serious competitor. Apart from the internal strife which is disrupting production, Burma's rice is already mortgaged to the Sino-Soviet bloc. The disturbances in Indonesia are at the one time affecting its rubber production, thereby guaranteeing a market for Thai rubber in the unlikely event that U.S. purchases should decline, and restricting rice production which adds to the amount that Indonesia is required to import.

The only dark cloud is tin. Thailand as a producing member of the International Tin Council is affected by the restrictions now current. Thailand's quota, however, is as good as can be expected and at least it is assured of a reasonable floor price.

In the longer term some observers profess to see in Thailand's dependence on three commodities for about 75 per

cent of its export income, a fundamental weakness in its foreign trade position. Many countries, however, are dependent on a lesser spread, e.g., Burma (78 per cent dependent on rice), Malaya (83 per cent on rubber and tin), Pakistan (74 per cent on cotton and jute) and Ceylon (80 per cent on tea and rubber).

It is true that Thailand will for some time to come be dependent upon rice for at least 40 per cent of its export income. But it is also most probable that there will be a market for at least one million tons of its rice each year. Rubber production which is expanding at a time when other countries are experiencing falling production through over-aged trees, seems to have an assured future. Tin will presumably continue to contribute its regulated share.

Thailand's hopes, however, for a more stable export income lie in its as yet undeveloped minor exports which make up about 25 per cent of its income. The newer export commodities such as tapioca, castor seeds, live buffaloes, oilseeds, and fresh eggs are already making a significant contribution.

Something, however, will have to be done about the level and composition of imports. If Thailand in pursuit of economic development, imports more capital goods without pruning back its other imports, it will of course be in trouble. If the Thai Government so wished, the position could be rectified with only the lightest touch of official control. A large number of consumer items which flow and overflow into the country could be regulated without causing any great hardship. Whether the Thais will be prepared to make even the small sacrifice that this step would involve is, of course, another matter. Possibly revenue demands may succeed where otherwise motivated restrictions would fail to raise any enthusiasm.

## Trade Agreements

Although rice is sold mainly through private channels, there are still a number of contracts that the Thai Government concludes with foreign governments.

The largest of the government to government contracts concluded in 1957 was with Pakistan. The agreement was signed in July, 1957, and provides for the sales to Pakistan in the years 1958 and 1959 of 100,000 to 200,000 tons of rice each year. An agreement for 25,000 tons of rice valued at £Stg.355,000 was signed in May with delivery during June and July.

Three agreements were signed with Indonesia, the first in January for 50,000 tons of rice, the second in April for the same amount and the last in December for 20,000 tons. Delivery in all cases was between two and three months.

A rice agreement for 80,000 tons valued at about \$9.96 million was signed with Japan in February. A general trade agreement with Japan was signed in Bangkok on 26th December, 1957, reaffirming the principle of reciprocal most favoured nation treatment agreeing to make efforts to achieve expansion and balance of trade, and providing for automatic renewal of the agreement for each calendar year unless terminated on three months' notice.

Three rice agreements were signed with the Philippines. Two of these which were for 10,000 tons of rice each were signed in April. An agreement was signed in September for 6,300 tons.

The only country outside Asia with whom Thailand concluded a trade agreement in 1957 was the U.S.A. The Agreement was signed in October and provided for the shipment to Laos at U.S. expense of 5,203 tons of Thai glutinous rice valued at \$563,493.

## Export Markets

The United States is still Thailand's largest single export market. The cessation of tin purchases during 1956 did, however, affect the pre-eminent position that it held in 1955. In that year the United States accounted for about 30 per cent of total exports. In 1956 this percentage dropped to less than 25 per cent and last year a further drop to 20 per cent took place. United States purchases are now mainly confined to rubber.



The Federation of Malaya is becoming an increasingly important buyer. Nearly all of Thailand's tin is exported to Malaya where it is smelted. In addition Malaya takes substantial quantities of rice. In 1957 exports to Malaya were 15 per cent of total Thai exports. A slightly smaller percentage of Thai exports went to Singapore.

Japan, which in 1956 held second place, has now fallen away to fourth position because of her reduced demand for rice. Japan took only 8 per cent of total Thai exports in 1957.

Hongkong's purchases have remained steady over the last three years, averaging about 8 per cent.

An interesting development in recent years has been the increasing diversification of Thailand's export outlets. In 1955, the unspecified countries accounted for 10.7 per cent of total export, in 1956 for 14.5 per cent and for 24 per cent in 1957.

Exports from Thailand to:	(Millions of Baht)		
	1955	1956	1957
U.S.A. ....	2,097	1,723	1,497
Malaya ....	855	1,019	1,133
Singapore ..	880	983	1,065
Japan .....	1,261	642	597
Hongkong ..	618	588	584
Indonesia ..	193	391	444
United Kingdom ..	171	217	231
Netherlands ..	211	209	193
Germany.....	84	99	93
India .....	32	43	35
Others .....	762	1,021	1,791
<b>Totals:</b>	<b>7,121*</b>	<b>6,923*</b>	<b>7,546</b>

Source: Bank of Thailand's Current Statistics.

\* Revised by Department of Customs.

Exports of Main Commodities:		1954	1955	1956	1957
Rice	Metric tons .....	1,001,486	1,236,539	1,264,986	1,576,506
	Baht ('000) .....	3,086,515	3,133,376	2,860,646	3,636,184
Rubber	Metric tons .....	129,894	132,495	135,620	135,530
	Baht ('000) .....	1,108,749	1,801,867	1,526,425	1,410,040
Tin Ore	Metric tons .....	13,880	15,680	17,598	18,396
	Baht ('000) .....	373,548	440,506	507,446	531,178
Total Value of All Exports					
(Baht '000) .....		6,177,014	7,120,548	6,923,197	7,546,089

Source: Bank of Thailand's "Current Statistics" with revisions supplied by the Department of Customs.

### Rice

Rice exports in 1957, totalled 1.57 million tons—the highest in the post-war period.

In the last two years Singapore has been Thailand's most important market followed by Hongkong. The two British colonies together accounted for a little over 30 per cent of total rice exports in 1957.

Japan, which in 1955 was the largest buyer, took only 116,000 tons in 1957 and purchases for the first quarter of 1958, were a mere 45 tons compared with 18,605 tons in the same period in 1957.

Indonesian purchases have grown considerably in the last three years. Despite, or perhaps because of, domestic unrest purchases in the first quarter of 1958 amounted to 109,220 tons compared with last year's first quarter total of 70,725 tons.

Direction of Rice exports	('000 metric tons)		
	1955	1956	1957
Singapore .....	231	307	297
Hongkong .....	170	179	192
Indonesia .....	66	145	176
Malaya .....	167	165	165
Japan .....	347	131	116
Philippines .....	56	32	92
Persian Gulf incl.			
Saudi Arabia .....	5	28	103
Pakistan .....	0	27	63
Holland .....	38	44	43
<b>Total of all Rice Exports:—</b>	<b>1,228</b>	<b>1,237</b>	<b>1,571</b>

Source:—Taken from information supplied by the Far East Superintendence Co. Ltd. (Thailand Branch).

(The Department of Customs figures for total rice exports in 1955 are 1,236,539 metric tons and in 1956, 1,264,986 metric tons.)

### Rubber

Exports dropped slightly from 135,620 tons in 1956 to 135,530 tons in 1957. The main buyer was the United States, which took nearly 90 per cent of total rubber exports. Minor purchasers were the U.K., West Germany and Malaya.

The average price of rubber in 1957 was about 4 per cent lower than the 1956 level of 11.25 baht per kilogramme, in itself a significant drop from the 1955 price of 13.59 baht per kilogramme.

### Tin

According to the Director General of Mines the export of tin ore in 1957 was a little higher than indicated by the Department of Customs figures given above. His figure is 18,537 long tons. Nearly all of this was exported to Malaya for smelting.

The United States, formerly the most important buyer of Thai tin, dropped out of the market completely in 1957 following the cessation of stockpiling and the sale of the government owned Texas tin smelter.

Minor buyers were Brazil (406 tons), Japan (337 tons), Portugal (101 tons) and Belgium (58 tons).

The following table details the production and export of tin in concentrate which is based on a 72 per cent metallic content of tin ore. The figures are calculated from information provided by the Mines Department.

	Production	Export
1952 .....	9,624	9,800
1953 .....	10,640	10,356
1954 .....	9,936	9,672
1955 .....	11,196	11,220
1956 .....	12,672	12,624
1957 .....	12,536	11,720

During 1957 Thailand succeeded in having its tin quota under the International Tin Agreement raised from 6.29 per cent to 7.35 per cent. A further increase to 8.35 per cent was achieved in April of this year.

Minor Exports

Teak, which had reached a record export level of 305,617,355 baht in 1956 fell away to 261,704,000 baht in 1957.

Exports of tapioca for 1957 were valued at 127,454,000 baht—nearly 100 per cent more than the value in 1955. The United States was the main buyer.

Other commodities which showed marked improvements were castor seeds and fresh eggs.

The value of lac exports fell drastically and were worth only 80,016,000 baht. Salted fish and maize exports were substantially lower than in 1956.

	1955	1956	1957
Teak .....	264,343	305,617	261,704
Lac .....	213,381	146,850	80,016
Tapioca (raw, flour and waste) .....	69,125	112,153	127,454
Maize .....	80,275	96,133	74,391
Peanuts .....	77,329	82,470	54,386
Buffaloes .....	41,737	66,706	57,352
Fish (salted) .....	35,861	61,201	13,253
Castor seeds .....	35,813	62,889	86,816
Eggs .....	27,359	56,747	61,706
Hides and skins .....	63,408	45,605	53,926

Source: The figures for 1955 and 1956 are taken from the Bulletin of Statistics issued by the National Economic Council. The figures for 1957 were supplied by the Department of Customs.

Imports

In 1957 Japan overtook the U.S.A. as Thailand's main supplier. Japan now accounts for 20 per cent of total Thai imports whilst the United States' share is 16 per cent. The United Kingdom continues to hold its 11 per cent share of the market.

Although Germany has succeeded in moving up from seventh to fifth position, the increase in its share of the market has only been from 6 per cent in 1955 to 7 per cent in 1957.

Imports into Thailand from:	1955	1956	1957
Japan .....	1,378	1,260	1,744
U.S.A. ....	1,444	1,174	1,399
U.K. ....	831	877	956
Hongkong ..	715	1,195	719
Germany ..	438	461	605
Singapore ..	465	575	580
Netherlands	616	458	564
Indonesia ..	242	260	350
Malaya .....	233	270	296
India .....	166	120	169
Others .....	789	797	961
Totals: .....	7,503*	7,655*	8,470

Source: Bank of Thailand's "Current Statistics".  
\* Revised by Department of Customs.

Composition of Imports

Consumer goods account for most of Thailand's imports. Textiles is the largest homogeneous group of imports and in 1957 imports under this head were valued at 1,303,976,000 baht.

A substantial increase in the import of iron and steel which is mainly used for construction purposes took place in 1957. Unfortunately, an informative breakdown of commodities under the machinery and transport equipment head is not yet available. The value of this type of equipment rose from 1,522,888,000 baht in 1956 to 1,891,478,000 baht in 1957.

	1955	1956	1957
Food .....	661,770	611,847	667,669
—Dairy products .....	293,830	290,531	338,253*
—Wheat flour .....	54,555	71,319	72,055*
Beverages and Tobacco .....	158,451	170,269	203,461
—Tobacco unmanufactured .....	126,436	143,630	180,462*
Crude Material (silk, cotton, minerals, etc.) .....	75,792	79,541	71,724
Mineral Fuels, Lubricants etc. ....	691,825	775,181	929,430
—Petrol .....	249,948	301,996	352,867*
—Heavy fuel oils .....	228,616	263,406	319,507*
Animal and Vegetable Oils and Fats .....	27,995	28,424	19,207
Chemicals .....	580,680	654,080	750,857
—Medicines and pharmaceuticals .....	211,107	239,396	272,958*
—Perfumes, toilet preparations, detergents, cleaners etc. ....	73,617	110,368	99,025*
Manufactures .....	2,761,190	2,977,856	3,138,718
—Rubber .....	168,126	159,833	187,425*
—Paper and paperboard .....	179,723	149,283	292,373*
—Textiles .....	1,310,514	1,368,958	1,303,976*
—Iron and steel .....	476,200	631,732	835,665*
—Metal manufactures .....	305,259	285,779	320,062*
Machinery and Transport Equipment .....	1,383,127	1,522,888	1,891,478
—Industrial .....	313,427	221,860	N.A.
—Electric machinery and appliances .....	342,935	352,686	N.A.
—Transport .....	580,934	637,147	N.A.
Miscellaneous Manufactured Articles .....	916,293	552,103	479,978
Miscellaneous Transactions and Commodities .....	245,525	282,937	317,265
—Gold coins and bullion .....	214,006	93,038	106,454*
Totals: .....	7,502,649	7,655,127	8,469,618

Sources: Figures for 1955 and 1956 taken from Bulletin of Statistics published by the National Economic Council. Figures for main import classification for 1957 taken from Current Statistics published by the Bank of Thailand.  
\* Preliminary figures supplied by the Department of Customs.

A NOTE ON THE RELIABILITY OF THAI STATISTICS

Thai statistics are not particularly reliable and the figures in the text should, therefore, be treated with some circumspection.

The Department of Customs is the source for figures on foreign trade. "Current Statistics" issued by the Bank of Thailand, and the "Bulletin of Statistics" issued by the National Economic Council, publish monthly figures supplied by the Department of Customs. The annual totals of these figures differ quite substantially from the revised annual figures which are published by the Department of Customs. The Customs' revisions usually take from six months to a year to come through and meantime the only available figures are the unrevised monthly totals. A further complication is that the Department of Customs issues a Monthly Report on trade through the Port of Bangkok. The mistake is often made of assuming that these figures correspond to the total for the Kingdom.

Of more consequence, however, is that in Thailand imports are compiled from the C.I.F. value to the landed port, inclusive of packing, commission and all charges as specified in the commercial invoice. In comparing Thailand's trade figures with those of its trading partners, it is therefore necessary in the case of Thailand's imports to deduct insurance and freight costs and incidental charges. Thailand's figures then should always be about 20 per cent higher than the exporting countries' figures of its export trade with Thailand.

Naturally the concept of imports including insurance and freight distorts conclusions that can be drawn from the balance of trade position. Thailand's balance of trade is a fact well on the way to being a balance of payments because the invisibles, which appear separately in most countries' balance of payments, are already involved in Thailand's balance of trade.



## HONGKONG NOTES AND REPORTS

**Cultural Vacuum**—A local columnist (Mr. M. F. Griffith) commenting on the recent German Graphic Art Exhibition held here said, "It is exciting and very valuable in a provincial place like Hongkong, to be brought into close contact with the genuine European tradition. The development of an artistic personality cannot be done in a cultural vacuum. No artist can hope to succeed without good taste. It is this element which is so lacking in Hongkong..." Every man of culture in Hongkong will agree with Mr. Griffith. We not even have a City Hall. The majority of the local population are too poor to think about culture because they have neither sufficient food nor adequate housing. The few who need not worry about their living are only concerned with further material gains and whatever their leisure they waste it on women, wine and gambling. Then there is a small group of serious-minded people who is mainly attracted by leftist theories. The general atmosphere is not favourable for cultural and spiritual values to be fostered.

**Hongkong Tourist Association**—One of our readers has expressed following views on this subject: The formation of the Association fourteen months ago was generally recognised as a big step forward in bringing Hongkong's tourist trade into line with other countries, but nevertheless the tourist trade is a luxury industry in the hands of very few people. The average tourist spends only three to five days in the Colony and the pattern for all of them is much alike, and their money is spent largely in hotels, catering establishments, travel agencies, tailors, luxury goods and means of travel. There is of course an indirect income, but this cannot be calculated. It is open to considerable doubt in the minds of the public whether the Association has yet presented a very good case to justify the large grant which has been made. Certainly it has made little effort to explain what it is doing or how the money is being spent. Even if the Association does not wish to publish detailed estimates an outline of expenditure should be produced. As the grant is apparently for a period of one year the future finance of the Association must be considered. The Executive Director has stated in the past that the ultimate membership of the Association is expected to be in the region of 1,000. If the initial yearly expenditure is \$600,000 then membership fees would have to be approximately \$1,000 per annum to cover present expenditure and future development. Perhaps this point explains the delay in publishing the rules for membership? If the Association with its official status (although not with official powers) wishes to have public support it must improve its public relations within the Colony. It must not only be prepared to tell us how it is spending its grant but also how it proposes to attract and keep the tourists. It is useless to pour out money in publicity if it is not tackling the many problems which exist for tourists in the Colony such as good hotel accommodation at fair prices, more and better guides, the elimination of touts and beggars, the improvement of the reception of tourists at docks and the airport and the control in some manner of unscrupulous traders.

**Freedom vs. Communism**—Hundreds of local fishing boats are now lying idle in Hongkong waters instead of catching fish in the Pearl River delta which used to be HK fishermen's traditional fishing grounds. Beginning August 1st, Communists on the Mainland are allowing only fishing boats which have joined their cooperatives to operate in the delta and waters close to Chinese territory. The majority of local fishermen refused to join communist cooperatives on account of the impossible conditions which make them virtually slaves to communist authorities. These conditions are so tough that even mainland fishermen find them difficult to accept and are therefore escaping to Hongkong in large numbers whenever they can. Thousands of them and their families are now staying at Cheung Chau Island, Castle Peak, Aberdeen and Tai Po. The Fishermen's Aid Organization here is distributing rice, flour and milk powder to them every week. During the past three years, 1,959 such

families (14,400 people) were registered with the organization. More aid should be made available, from local as well as from international sources, to these fishing folks who have fled here hoping that life in the Free World will be better than slavery under Communism.

**Gasoline Prices**—Gasoline prices were increased by five cents per gallon last week by three leading oil companies here—Shell, Standard-Vacuum, and Caltex—on account of the increase in cost. Ordinary grade gasoline now costs \$2.25 per gallon and higher grade, \$2.50 instead of the former \$2.20 and \$2.45 respectively. Most motorists are unconcerned about the price increase because it comes to only \$5 per 100 gallons. Oil companies however will be able to increase their total income by about \$1 million per annum because Hongkong at present is consuming nearly 20 million gallons of gasoline every year.

**Living Standard**—At a public meeting held last week under the auspices of the Reform Club, Brook Bernacchi, Chairman of the Club, made a number of suggestions for improving the standard of living in Hongkong. He said inter alia: Cost of living is dependent upon a very large number of factors. Firstly is the cost of food itself, and as the vast majority of the people of the Colony eat rice this means that the cost of rice is of primary importance. The importation and distribution of rice is still in the hands of a very limited number of authorised persons who are therefore able to treat it in many ways as a monopoly. The only excuse for this is that Government requires its own stocks of rice held in reserve to be maintained. We feel that the maintenance of such reserve is not dependent upon the maintenance of a close monopoly in respect to rice importation and distribution. The price of rice, on information available to us, can be materially decreased if private enterprises is given a free hand in the matter and the present restrictions on importation and distribution are removed.

Of equal importance to the cost of food is the cost of housing. We greatly deprecate that now in 1958, nearly 13 years after the end of the World War which saw the first influx of people returning to the Colony and some eight years after the further influx, largely of refugees, of 1950, the housing situation should remain so acute and the conditions of overcrowding in tenement accommodation be as bad as ever, to say nothing of the horrifying sight of people having to build squatter shacks even in the streets of our urban city. It must, however, be remembered that overcrowding is not only due to shortage of accommodation, it is also due to an inability in the vast majority of our people to pay for accommodation unless the rentals are divided up and in effect shared by a very large number per floor.

Another aspect of cost of living is the employment and unemployment problem. The cost of living must in the ultimate result be related to the average wage earning capacity of the man in the street. In Hongkong the average wage earning capacity of a family man does not exceed \$200. On any standard this must be regarded as very low. There is, however, an even worse problem in Hongkong than the mere difference between the average wage and the cost of living. The unemployment problem has always been bad but it has never been worse than it is to-day. Trade is still in recession, and commercial firms generally operate with reduced or even skeleton staffs. At the same time our industries, which largely saved the Colony at the time when trade was hit by the Korean war and subsequent embargo, are being forced to close down very largely by reason of competition from China, where under a militant Communist system such questions as cost of production and in particular workers wages are only of secondary importance.

New markets must be found for our industries. We are being far more seriously hit than, for instance, the Lancashire mills for all their shouting against us and whose workers compared with ours are infinitely better off. New markets must be found for our goods and the obvious choice is to take advantage of those markets which the goods from China are unable to reach; particularly the markets of the U.S.A. Government must help. Japan at present is deriving enormous advantages

from the sale of their goods in the United States and there is no reason why Hongkong should not follow suit provided we have sufficient support both from the Government here and from the British Government in the United Kingdom. It is also to be deprecated that Government should choose this time of all times to engage in a fairly widespread removal of factories who have erected their buildings at considerable costs on Crown land under temporary Crown land permits. Only the smaller of these factories are being offered alternative accommodation at present and the rest are left either to close down or to find large capital to enable them to purchase land in industrial areas.

Some economists may say that it is a bad thing for a Government to make work, but where the disease is as desperate as the disease of unemployment is in Hongkong an expenditure by Government even out of capital reserves on enormous rehousing projects, the opening up and developing of land under the Development Division of the Public Works Department, the opening up of better communications, widening roads, electrifying the railway and, of course, building a cross-harbour tunnel or bridge would have the dual effect of materially contributing towards reducing the cost of living by better and cheaper housing, transport facilities and the like and at the same time afford employment for a very large number of people.

Corruption in Hongkong is one of the worst in the world. Corruption in Hongkong enters into almost every facet of the average life of the men in the street. Corruption is of course not in any way confined to just some officials. It is to be found in almost every walk of life, even that pernicious payment known as key money is of a similar nature. It is no use our blaming the Government for this sort of thing, no good blaming the police for not rooting it out. Actual proof is usually very difficult to obtain because corruption is done through middlemen. The only way to stamp out corruption is by a proper attitude of mind amongst the people of this Colony. A feeling in those who are in a position to charge that it is wrong for them to do so, whatever the temptation, and a feeling in those who are tempted to pay that come-what-may they should not pay.

There were four other speakers at the meeting. Mr. P. C. Woo urged the building of more premises at very cheap rentals for the common people. He said that the present resettlement project which had housed tens of thousands of refugees had the unfortunate effect of appearing to leave in the lurch the majority of bona fide residents who resided in over-crowded tenement accommodation. Dr. Alison Bell stressed the appalling over-crowded housing condition under which at least 50 per cent of the population were living and where infectious diseases could spread rapidly, especially Tuberculosis. She called for better working conditions, shorter working hours, annual holidays, better and airy buildings and medical attention not only for the factory worker but for the shop worker, the clerical worker and certain classes of school teachers. In his appeal for more and better schools, Mr. Gerald de Basto said it would be all of no avail unless there were good and qualified teachers to teach in them. It is ludicrous to expect persons of learning and teaching ability to become and remain teachers unless they receive adequate compensation for the responsible work they do. Dr. Raymond Lee said that trade was the lifeblood of the Colony and every effort must be made to promote and encourage it. He suggested the provision of unemployment benefits to Hongkong's unemployed which he estimated to be in the region of 300,000. An effective way of solving unemployment was the encouragement of emigration as a matter of policy.

**New Schools and Number of Students**—New school buildings and extensions completed during the April-June period this year provide accommodation for over 4,500 primary school pupils. The new school buildings include the Li Cheng Uk Primary School, which has 24 classrooms, and the subsidised C.M.S. Kei Oi School, also with 24 classrooms. Each of these schools accommodates 2,160 pupils. The re-construction of the 7-storey, 21-classroom True Light Middle School in Caine Road will provide accommodation for an additional 443 pupils. In the rural areas, new schools providing education for about 630 pupils have been completed at Tuen Mun, Tsun Wan, Clear Water Bay, Peng Chau, Sai Kung and Sha Tau Kok. Sites were recommended for seven new urban schools which will eventually provide additional places for over 5,000 primary and nearly 3,000 secondary school pupils.

The number of children in all types of schools in the Colony at the end of June totalled 376,867, an increase of 6,330 over the figure recorded in the previous quarter. Of the total, 44,734 children are attending Government schools, 17,265 in grant-in-aid schools and 92,623 in subsidised schools. The remaining 222,245 are attending private day and night schools and special afternoon classes. A total of 7,410 new students have been offered places in Primary I classes in Government Schools in September.

**New Airport Terminal**—The Kai Tak Progress Committee, which was asked by Government to examine the sketch plans for the new terminal building at the airport, has already submitted its report to Government. The revised plans and estimates recommended by the Committee will result in a saving of about \$6 millions, or some 25% on the original estimate of about \$25 millions for the terminal building and the terminal area. Under the new plans, the handling of passengers will be much simpler and quicker, the Committee, taking into account the fact that Hongkong is, and will remain, a free port, having largely eliminated elaborate and expensive arrangements for search and segregation of passengers. The new building is designed to meet foreseeable requirements and to be capable of expansion in the future at short notice without any interference with existing facilities, if such expansion should prove necessary. The Committee's recommendations will now be given urgent consideration by Government and a further announcement regarding Government's decision on the Report will be made in the near future.

Assuming that Government accepts all the recommendations of the Kai Tak Progress Committee, it is estimated that the new terminal building can be completed within two years. Construction of the new terminal building in any case could not start until the new runway is opened, because it is to be sited on one of the existing runways. As it is, a considerable amount of work will still have to be done by the architects and engineers on the revised plans before the actual construction work can begin. Meanwhile, it has been agreed that what will eventually be the airport freight building should be constructed forthwith for use as a temporary terminal building until construction of the permanent passenger terminal is completed. Planning on the freight building, suitably modified for passenger use, has now been completed, and the consulting engineers and architects are preparing specifications for tender, which will be announced within the next few weeks. The building itself is expected to be completed by the beginning of May, 1959. The finish and amenities of this temporary building will be below the standard set for the permanent terminal but it will provide adequate facilities in the interim. The area of the building will be about four times the area of the existing terminal building and provision is being made for a public restaurant, waiting rooms, airline offices, shops etc. as well as for the essential passenger and baggage handling facilities.

**Hotels**—The new 150-room fully airconditioned Astor Hotel in Kowloon was opened last week. The 11-storey hotel was built by overseas Chinese at a cost of more than \$5 million. Hongkong will have two or three more new hotels before long thus increasing the total number of hotel rooms to over 2,000.

**Maiden Voyage**—The third vessel of Royal InterOcean Lines in the Far East-West Africa service, the mv Van der Hagen, will arrive here from Japan on August 22 on her maiden voyage. Two months ago, Royal InterOcean Lines established a new link in their world-wide net of liner services and inaugurated a fast monthly service from Japan and Hongkong via Cape Town to Matadi, Lagos (Apapa), Port Harcourt, Accra and Takoradi. The service was established to provide shippers in Japan and Hongkong with fast shipping facilities to accommodate the rapidly developing countries of West Africa. Five modern, medium-sized vessels are now employed on this run. They are the mv Van Waerwijck, Van Heemskerck, Van der Hagen, Schouten and Van Spilbergen.

**Shipbuilding**—The Taikoo Dockyard is to deliver two new cargo motor vessels, Tarawera and Chefoo, to their owners soon. The vessels made successful trial runs in the East Lamma Channel last week. The Tarawera, a refrigerated cargo vessel, is to be handed over to the Union Steamship Co. of New Zealand and the Chefoo, a dry cargo vessel, to the China Navigation Co. The Chefoo is the fourth vessel of its class built by Taikoo for China Navigation.



HONGKONG AIRWAYS

Hongkong Air Traffic in May

On February 10th, 1957, the now familiar whistle of the Hongkong Airways Viscount airliner was heard for the first time at Kai Tak. HKA's Viscount—descendant of the first jet-prop passenger aircraft in the world—heralding the beginning of the Jet Age in the Orient. Capt. R. S. Colvin, who is now the Company's General Manager, captained the first Viscount on its delivery flight from London. Almost immediately the airliner began its first scheduled services to Korea. The second aircraft arrived in March, and in that same month, services began to Manila. These routes were gradually increased to include Taipei and Tokyo.

Since commencing operation, HKA has flown 32,097,520 passenger miles. The number of passengers carried during this period—April 1957—June 1958—was close to 32,000. Out of 1,260 scheduled flights, only 9 had to be delayed or cancelled, and Typhoon Gloria, which passed within 30 miles of the Colony on September 22nd, 1957, was the cause of most of those. Some mathematically minded person has worked this out to a figure of 99.286% regularity. On our longest route, Hongkong/Tokyo, there has not been one delayed arrival at Tokyo's International Airport in 214 scheduled flights—and all this with only two aircraft.

To quote from "American Aviation" (March 24th, 1958):—"The turbo-prop reliability record of the Viscount is little short of phenomenal. Recent statistics compiled by the CAA's Office of Flight Operations and Airworthiness for a 90 day period, show that the Viscounts' Rolls-Royce Dart engines have flown an average of 14,652 hours per engine failure. AT LEAST DOUBLE the time recorded by an airliner using THE MOST MODERN PISTON ENGINES."

We read on:—"In many instances the improvement was 4 to 5 fold in favour of the jet-prop. In one specific instance the Dart's 14,652 hours average was almost 12 times that of the 1,241 hours averaged by an airline operating Douglas DC-7's."

Hongkong Airways' record has been even better than these American figures, and since arriving in Hongkong, their Viscounts have not had one engine feathered in flight, apart from training pilots in this exercise. Needless to say, reliability of this kind has a great effect upon the economics of airline operation.

It was April 1953 when the first Viscount service began in Europe, operated by B.E.A. Since that day, 400 Viscounts have been ordered by over 36 operators throughout the world, and the aircraft has been steadily developed. HKA's Viscounts have benefited from this vast experience and have the later model engines, the Rolls-Royce Dart 510, giving more power and a higher cruising speed.

The passenger appeal of the Viscount has been proved throughout the world, and the Orient has been no exception. The passenger load factor has shown a remarkable increase wherever the Viscount has replaced the old-fashioned piston engine types. In fact, once a person has flown in the vibration free, smooth silence of a jet-prop, they are sold on that kind of flying. This plus the passenger appeal of the Viscount's cabin, with the largest windows in any civil aircraft and its many modern refinements, mean that passengers ask to fly by "Viscount".

Another criterion of a good aircraft—do the pilots like it? Ask any Hongkong Airways pilot, and you will find they are most enthusiastic about the aircraft, and Hongkong Airways have some of the most experienced Jet-prop Captains in the world.

This, therefore, is the basis of Hongkong Airways' success story, over some of the most competitive routes in the world. Experienced jet-prop pilots with years of Far Eastern know-how, and the reliable, proven Viscount. The Viscount is without a challenger as the leading medium-haul airliner of today, which is why it was chosen by HKA—as modern as the promised aircraft for tomorrow and yet with over six years of airline operation behind it, and millions of miles of trouble free flying.

Regions	Departure			Arrival		
	Passenger	Freight (Kilos)	Mail (Kilos)	Passenger	Freight (Kilos)	Mail (Kilos)
Australia ....	168	3,442	1,144	148	1,483	260
Thailand ...	1,903	7,377	794	1,555	6,073	2,378
Borneo .....	87	4,128	169	158	113	61
Burma .....	224	6,457	493	171	354	227
Cambodia ...	212	1,238	173	149	53	121
Canada .....	250	1,082	642	80	276	333
Europe .....	161	10,849	2,303	107	4,455	2,300
Taiwan .....	630	33,621	1,716	830	3,118	1,971
Guam .....	—	2,386	28	2	132	20
Honolulu ...	119	316	366	52	128	96
India .....	550	5,063	518	687	3,459	1,576
Indonesia ..	—	—	512	—	—	—
Japan .....	3,299	10,742	1,653	2,447	10,094	7,810
Laos .....	142	39,451	112	141	2,288	49
Macao .....	—	1,105	—	—	—	—
Malaya .....	33	38	393	132	—	—
Middle East ..	141	11,189	564	63	1,299	188
New Zealand ..	—	—	252	—	—	—
Okinawa ....	125	8,762	78	77	328	147
Pakistan ....	146	1,737	783	60	112	223
Philippines ..	2,330	19,052	1,011	2,269	2,934	1,247
Singapore ...	946	14,353	1,476	859	5,879	4,909
South America	151	626	3	14	32	27
South Korea ..	242	2,085	480	304	1,229	518
Un. Kingdom ..	331	8,324	3,098	209	8,713	2,979
United States ..	139	3,961	4,167	68	2,037	3,562
Vietnam ....	378	5,295	284	343	1,289	521
Wake Island ..	—	107	—	—	4	—
Ceylon .....	—	—	177	—	—	—
Africa .....	—	—	912	—	—	15
Total .....	12,707	202,786	24,301	10,925	55,882	31,538
Direct Transit	1,442	30,189	—	1,442	30,189	—
Total Aircraft Departures—408. Total Aircraft Arrivals—405.						

Hongkong Shipping in May

Flag	Vessel		Cargo	
	Arrived	Departed	Discharged	Loaded
	No. Tonnage	No. Tonnage	(ton)	(ton)
British ....	274 476,706	264 468,246	111,996	42,259
American ..	25 134,927	25 133,348	10,872	7,509
Chinese ....	35 13,012	33 13,350	14,102	3,249
Danish .....	19 56,587	20 59,203	13,787	13,001
Dutch .....	22 99,466	24 102,993	7,720	8,510
French .....	8 38,511	8 38,511	5,589	4,006
German ....	7 34,232	7 34,232	3,674	2,164
Indian .....	1 4,267	1 4,267	1	25
Italian .....	1 6,586	1 6,586	1,026	65
Japanese ....	56 190,118	52 178,434	17,884	27,272
Korean ....	4 8,567	5 10,083	2,622	2,150
Liberian ...	2 4,245	3 10,464	2,003	1,000
Norwegian ..	47 141,720	46 137,926	98,021	16,062
Panamanian ..	14 29,572	18 37,567	25,866	7,918
Philippine ..	2 8,659	2 8,659	585	70
Swedish ....	10 31,528	10 31,528	4,092	3,613
Russian .....	6 744	6 744	—	—
Yugoslavian ..	3 6,765	3 6,765	2,904	342
Total .....	536 1,286,212	528 1,282,906	322,774	139,215

# FINANCE & COMMERCE

## HONGKONG SHARE MARKET

Last week's market was very quiet because buyers assumed a wait-and-see attitude while only a few sellers were anxious to liquidate their holdings at the week's lowest prices. Consequently, most shares registered only slight dips during the week and trading totals averaged only about \$400,000 per day (Monday, holiday; Tuesday, \$493,000; Wednesday, \$321,000; Thursday, \$252,000; Friday, \$479,000).

Investors are now waiting for the announcement of 1958 interims. They want to see whether dividends this year are lower than 1957 or remain unchanged.

At present, Telephones are yielding only 5.91 per cent; Electric, 7.04 per cent; Lights, 6.36 per cent; Docks, 4.73 per cent; and Union Insurances, 4.63 per cent. Buyers want prices to come down if dividends this year are not increased. On the other hand, Cottons and Cements are yielding over 15 per cent and 13 per cent respectively but buyers anticipate that this year's dividends for these shares will be much lower than 1957 on account of the curtailed exports of cement and cotton textiles to SE Asia and other markets.

The undertone was steady at the close on Friday.

—0.2747, Indonesia 0.0689—0.068. Sales: Pesos 180,000, Yen 62 million, Malayan \$220,000, Piastre 8 million, Kip 4 million, Rial 4 million, Baht 2 million, Rupiah 2½ million. The official rate for Kip dropped from 35 to 70 per US\$, a 50% depreciation. The local market was not affected because rates had worked lower some time ago; the market was also very narrow. The sudden increase in demand for Rupiah reflected better political situation in Indonesia.

Chinese Exchange: People's Yuan notes recovered on the free market to HK\$0.77—0.67 per Yuan after Peking agents had come to the rescue. Taiwan Dollar notes quoted \$0.1395—0.139 per Dollar, and remittances at 0.137—0.136.

Bank Notes: Highest and lowest rates per foreign currency unit in HK\$: England 16.13—16.12, Scotland 14.80, Ireland 13.50, Australia 12.55, New Zealand 14.12, Egypt 10.03, East Africa 15.00, South Africa 15.68, West Africa 13.00, Jamaica 13.50, Gibraltar 13.50, Malta 12.50, Cyprus 12.50, Fiji 10.00, India 1.1773, Pakistan 0.81, Ceylon 0.92, Burma 0.52, Malaya 1.853—1.842, Canada 6.0125—5.9775, Cuba 5.00, Argentina 0.12, Brazil 0.035, Peru 0.24, Mexico 0.40, Philippines 1.83—1.825, Switzerland 1.33, West Germany 1.365, Italy 0.0091, Belgium 0.107, Sweden 1.02, Norway 0.72, Denmark 0.77, Netherlands 1.45, France 0.01265—0.0126, South Vietnam 0.072—0.071, Laos 0.0555—0.052, Cambodia 0.081—0.08, New Guinea 1.10, Indonesia 0.0725—0.071, Thailand 0.2685—0.266, Macao 0.998—0.995, Japan 0.01441—0.01432.

Share	Aug. 1	Highest	Last Week's Rate	Closing	Up & Down	Dividend	Estimated Yield (%)
HK Bank	780	780	767.50	767.50	—\$12.50	\$45	5.86
Union Ins	73.50	74	73.50	73.50	steady	\$3.40	4.63
Lombard	28b	28	28b	28b	steady	\$2	7.14
Wheelock	6.05b	6.05	6	6	—5c	75c	12.50
Yangtze	6a	6a	5.85	5.85	—15c	65c	11.11
Allied Inv	4.55a	—	—	4.55a	quiet	25c	5.49
HK & FE Inv	10.60a	—	—	10.60a	quiet	80c	7.55
HK Wharf	101a	102a	100a	100a	—\$1	\$9	9.00
HK Dock	42.25b	42.25	42.25a	42.25a	steady	\$2	4.73
Provident	12	12	11.80	11.80	—20c	\$1	8.47
HK Land	32.25	32.25	31.75	32	—25c	\$2.40	7.50
Realty	1.45	1.50a	1.40	1.40	—5c	15c	10.71
Hotel	22	21.90	21.40	21.40	—60c	\$1.50	7.01
Star Ferry	113b	115a	112b	113	steady	\$9	7.96
Yaumati	95a	95	94.50	95	steady	\$7.50	7.89
Trams	26.50	26.60	26.10b	26.50a	steady	\$1.90	7.17
Light	17.60	17.70	17.30	17.30	—30c	\$1.10	6.36
Electric	27.50	27.50	26.90	27	—50c	\$1.90	7.04
Telephone	25.90	25.80	25.20	25.40	—50c	\$1.50	5.91
Cement	22.60b	23a	22.60	22.70a	steady	\$3	13.22
Dairy Farm	17.50	17.50	17.30	17.30	—20c	\$1.80	10.40
Watson	10.90b	10.90	10.80b	10.80b	—10c	\$1	9.26
Amal Rubber	1.575a	1.575	1.525	1.575a	steady	20c	12.70
Textile	4a	—	—	4a	quiet	60c	15.00
Nanyang	7.50a	7	6.90	7a	—50c	\$1.10	15.71

## HONGKONG EXCHANGE MARKETS

### U.S. \$

Aug.	T.T. High	T.T. Low	Notes High	Notes Low
4	Holiday			
5	582½	581¼	580½	579¾
6	582½	582	580½	580¼
7	583½	583	581½	580½
8	584¼	583¾	582	581¾
9	583½	583¼	581¾	581½

D.D. rates: High 582½ Low 580¼.

Trading totals: T.T. US\$4,410,000; Notes Cash US\$510,000, forward US\$2,450,000; D.D. US\$330,000. The market was uncertain with rates moving slightly upward on the news of renewed tension over the Taiwan Strait. In the T.T. sector, gold importers and exchange operators provided steady demand while funds from Japan, Korea and the Philippines were normal. In the notes market, speculators again provided keen demand. Peking agents liquidated a fair amount of cash notes on the market. Interest for the change over favoured sellers and aggregated HK\$2.01 per US\$1,000. Positions taken by speculators averaged US\$2¼ million per day. The D.D. market was quiet.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit in HK\$: Philippines 1.79—1.78, Japan 0.014475—0.01435, Malaya 1.88—1.875, South Vietnam 0.0714, Laos 0.052, Cambodia 0.08, Thailand 0.2751

## Gold Market

Aug.	High .945	Low .945	Macao .99
4	Holiday		
5	253¼	253	Low 263¼
6	253½	253	
7	253¾	253½	
8	254	253¾	263¾ High
9	253¾	253¾	

## Last week's selling rates of local exchange dealers

Country	Currency	Denomination	In HK\$	In US\$
America	Dollar	5-100	5.82	—
Australia	Pound	5-10	12.65	2.175
Britain	Pound	1 and 5	16.20	2.786
Burma	Kyat	10-100	0.54	0.093
Cambodia	Rial	all	0.083	0.01427
Canada	Dollar	5-20	5.99	1.03
Ceylon	Rupee	5-100	0.95	0.164
France	Franc	all	0.01275	0.002193
Hongkong	Dollar	all	—	0.17211
India	Rupee	all	1.185	0.204
Indonesia	Rupiah	all	0.078	0.01341
Japan	Yen	100-5000	0.0145	0.002494
Laos	Kip	all	0.055	0.00946
Macao	Pataca	all	1.01	0.174
New Zealand	Pound	1-10	14.25	2.451
Pakistan	Rupee	100	0.83	0.143
Philippines	Peso	5-100	1.84	0.316
Singapore	Pound	all	1.85	0.319
South Africa	Franc	all	15.80	2.717
Switzerland	Franc	all	1.37	0.236
Taiwan	Dollars	5 and 10	0.142	0.02442
Thailand	Tical	10-100	0.272	0.04678
South Vietnam	Piastre	all	0.073	0.01255



Opening and closing prices were 253½ and 253¾; highest and lowest, 254 and 253. The market was quiet and prices moved within a narrow limit. Speculators were quiet but showed keen interest; positions taken averaged 9,800 taels per day. Interest for change over favoured sellers and aggregated HK\$1.05 per 10 taels of .945 fine. Tradings averaged 11,500 taels per day and amounted to 57,500 taels for the week in which 8,900 taels were cash dealings (3,100 taels listed and 5,800 taels arranged). Imports from Macao totalled 7,000 taels. Exports amounted to 6,500 taels (5,000 taels to Singapore, 1,000 taels to Rangoon, and 500 taels to Taiwan). Differences paid for local and Macao .99 fine were HK\$12.20—12.00 and 11.20 respectively per tael of .945 fine. Cross rates were US\$38.05—38.04 per fine ounce; 28,800 fine ounces were contracted at 38.04 cif Macao. US double eagle old and new coins quoted \$264 and 240 respectively per coin, English Sovereigns \$59 per coin, and Mexican gold coins \$276 per coin. Silver Market: 500 taels of bar silver traded at \$5.55—5.50 per tael, and 500 dollar coins at \$3.58—3.56 per coin. Twenty-cent silver coins quoted \$2.72—2.70 per five coins.

## CHINA TRADE IN JULY

Fifteen Allied Nations (all N.A.T.O. countries less Iceland plus Japan) agreed in Paris to eliminate nearly half their curbs on strategic trade with the Communist bloc. Communist countries including China will be free to buy nearly 100 items of previously banned manufactured goods and raw materials. They range from small oil tankers and fishing vessels to electronic equipment and chemical plants. Full extent of the relaxation will be published in mid-August. Britain's objective of confining the list to items of real strategic significance has therefore been in great measure achieved. Washington, however, has no intention of modifying its total embargo on trade with China although the United States is expected to relax restrictions on exports to the European Soviet bloc early in September.

**Trade with UK**—Early in the month, China switched her orders for steel products to Britain and other West European countries as a result of the breach in trade relations with Japan. British firms were given orders for steel tubes, silicon steel sheet, cold rolled strip, tinplate, etc. (Before the suspension of trade relations, China was negotiating the purchases of steel products from Japan to a total value of £10 million in 1958 and £18 million in 1959). China's demand was not limited to steel; she also enquired for copper wire, textile machinery, viscose filament yarn, machinery for the plastics industry and other supplies and equipment from Britain. In return, Britain purchased large quantities of staples and light industrial products, including cheap cotton cloth, from China.

Towards the end of last month, however, the Chinese trade mission in Britain cut short its visit and returned to

Peking because of the strained political situation following the Middle East Crisis. The mission, consisting of trade officials, had been in UK since April 16. Another 'procurement group' from the China National Transport Machinery Import Corporation, which arrived in UK early in July, also cancelled its schedule. Trade circles in UK anticipate that China will buy more supplies and equipment from West Germany, France, Sweden and Switzerland and other West European countries if the political situation does not improve.

**Trade with Japan**—China's attitude towards Japan remained unchanged since the suspension of trade between the two countries last May. During the month, steamship companies in Japan were informed by China's Foreign Ship Agent Corporation that any Japanese ship calling at Chinese ports must apply every time with the corporation asking it to act as an agent to file necessary procedures with the Chinese authorities in advance. This ended the privilege earlier given to Japanese ships allowing them to call at four major Chinese ports including Shanghai without advance authorization.

Towards the end of July, a Japanese Socialist Party leader went to China to persuade Peking to restore trade relations with Japan. In Tokyo, reports persisted that Japan was about to make a serious effort to solve her current trade deadlock with China. Japanese businessmen feel that the protracted trade feud with Peking will be detrimental to Japanese economic interests, particularly in SE Asia. Since last May, Peking has been encouraging Chinese merchants in SE Asia to boycott Japanese goods. Peking is also offering Chinese textiles and other light industrial products to SE Asian markets at prices considerably cheaper than similar Japanese products.

**Trade with Europe**—A trading agreement involving 25 electric locomotives costing over £3.76 million was signed in Peking between the China National Transport Machinery Import Corporation and the French Schneider group. Deliveries will be made before October 1960. According to the agreement, these shipments will be made against consignments of Chinese goods to France.

Agreements between Prague and Peking were concluded for the delivery of a large number of machines including such unique machines as the NTH 300/40 guillotine shears weighing 61,000 kilos and the HK 31/10 double column planting machine weighing 149,000 kilos. A large number of all types of lathes, various types of milling machines, die-sinking machines and machine tools of all kinds will also be delivered this year. At present, Czechoslovakia is the second largest supplier of machine tools to China. Before the end of this year, Technoexport, the Foreign Trade Corporation, will also deliver equipment for two cement works (one with an output of 100 tons per 24 hours and the other with an output of 200 tons) and six oxygen plants (two this year and four in 1959). China's exports to Czechoslovakia include silk goods and other consumer goods. An exhibition of

Chinese silks was held in Prague during the month. It included samples and pictures describing the history of silk production in China.

China will also take part in Switzerland's Lausanne National Fair which will open on September 13, 1958. Large shipments of Chinese silk, handicraft art, green tea and canned food are being made to Lausanne. At the exhibition, a Chinese restaurant will be opened to serve the visitors and tourists. At present, Switzerland imports silk, tea, peanuts, casing, woodoil and canned food from China.

A Sino-Rumanian trade agreement covering the period 1959 to 1962 was signed in Peking on July 21. The agreement provides that between 1959 and 1962, China will supply Rumania with soya bean, rice, various kinds of mineral products, machines and instruments, daily consumer goods and other items. In return, Rumania will ship to China, power station equipment, cement equipment, drilling machines, oil tank wagon, blast furnace blowers, petroleum and other supplies and equipment.

**Trade with Canada**—Chinese trade delegates in Canada kept silent about what they were interested in buying or selling. Meanwhile, the United States was prepared to permit the sale of trucks to China by the Ford Motor Company's Canadian subsidiary which had recently received an enquiry from China for 1,000 trucks.

During the month, two shipments of Canadian wheat, totalling about 25,000 tons, were shipped to China direct from Vancouver. According to Ottawa reports, Canada had sold some Can.\$5 million worth of wheat to China this year. (China had also ordered 10,500 tons of wheat from Australia in June).

**Trade with New Zealand**—Although the Chinese trade delegation had been in New Zealand for over a month, little was known about its activities. Reports from Wellington only mentioned that the Chinese delegation was confident that it would be possible to increase trade between the two countries.

**Trade with SE Asia**—Peking launched an anti-Japanese trade campaign among overseas Chinese in SE Asia. The National Overseas Chinese Council in Peking urged Chinese businessmen in SE Asia to boycott all Japanese products in retaliation for the Kishi Government's "hostility towards China and a plot to revive Japanese militarism which was responsible for Japan's invasion of China on July 7, 1937."

Large quantities of Chinese goods are now dumped on SE Asia markets to compete with Japanese products. Peking also grants all kinds of payment facilities to Chinese traders in SE Asia to push the sales of Chinese goods. In Bangkok, Japanese cotton piecegoods have been practically driven out of the market by an invasion of Chinese products which are 10 to 15 per cent cheaper in price. Chinese steel products are also shipped to Thailand at prices about 5 to 10 per cent lower than similar Japanese goods.

Large quantities of Chinese cotton cloth are also shipped to Djakarta on



credit under Peking's 'cotton cloth loan' of 70 million yards. To Ceylon, China is supplying a great variety of light industrial supplies under the 'rice/rubber deal'. Chinese light industrial products are also being shipped to Cambodia and Laos in an ever increasing volume under Chinese economic aid agreements with these two countries.

In Singapore, cheap Chinese cement is giving an increasing pressure to Japanese and HK products. Singapore and Malaya have almost stopped buying enamelware from here while at the same time increased imports of this item from China. China will also export passenger car tyres to Malaya at prices 17 or 18 per cent below British tyres. Last year, China supplied Malaya with only M\$1,196 worth of bus and truck tyres but total shipments this year, including passengers car tyres, will probably amount to M\$4 million.

**Trade with Other Countries**—A businessman from Kuwait went to China and bought £200,000 worth of Chinese products including trucks, tyres, cement and sundry goods.

**The Port of Canton**—In order to handle the increased volume of foreign trade, Canton port authorities are improving existing harbour facilities. The project includes the construction and modernization of about 10 wharves. The plan will be realised in 1962. By then the port will be able to handle 5,000-ton freighters.

## HONGKONG TRADE IN JULY

### IMPORTS & EXPORTS

Imports of foodstuffs, durable consumer goods and industrial supplies during July totalled \$362 million, \$8.2 million better than in the preceding month. The increase resulted chiefly from heavier imports of foodstuffs and light industrial products from China. Compared with July 1957, however, imports were \$55 million lower because imports from UK, US, Japan and Europe were curtailed on account of the sluggish reexports to SE Asia.

On the other hand, reexports of Chinese products to SE Asia during July were better than in the preceding month particularly in shipments to Thailand, Singapore, Malaya and Indonesia. Exports of HK manufactures to the Philippines and Indonesia also improved. Consequently, total exports in July amounting to \$246.9 million were \$12 million higher than in June.

In the local commodity markets, prices for metals, paper, industrial chemicals and pharmaceuticals were steady on low stocks but quotations for cotton yarn, piecegoods, rice, wheat flour, sugar and cement were weak because the supply far exceeded the demand and China continued to ship here these items at prices much below those from other sources.

In spite of the mounting tension in the Middle East during the first half month, most importers here refrained from booking heavy supplies from UK, Europe and Japan. Towards month-end, some importers were considering to book more

replenishments from Japan after China had suddenly increased purchases of metals, industrial chemicals and fertilizers from the local market. The majority of local traders, however, kept calm because it was difficult to predict whether or not the demand would be sustained.

**Trade with China**—China must be in urgent need of fertilizer because it had, during July, absorbed over 1,000 tons of fertilizer from the local market including a large quantity of deteriorated goods. China also bought back some industrial chemicals from here at prices higher than original cif HK quotations from Canton and Shanghai. There were also more orders from Canton, Shanghai, Peking and Tientsin for metals from the spot market and for forward deliveries of pharmaceuticals, transportation equipment and other essential items from local agents of British and European factories.

Exports to China, however, were still insignificant when compared with imports from China which exceeded \$100 million. The intensified shipments of foodstuffs and light industrial products to the local market provided serious competition for Japanese, Taiwan and local manufactures. Although the shortage of wheat in China forced Peking to buy this item from Canada and Australia, Canton shipped wheat flour to HK at prices even lower than cheap Japanese brands. China's sugar output at present is far from enough to meet its domestic demand but during the month Canton and Tientsin shipped here large quantities of sugar to undersell Taiwan products. Chinese machinery (weaving, knitting, printing, etc.) and tools were offered to local buyers although Peking was buying these items from Europe to equip Chinese industries. Chinese cement continued to reach here in large quantities at prices below HK and Japanese brands. Chinese industrial chemicals retained strong local demand although supply of several items from Canton was suspended on account of domestic shortage. Chinese wire nails and steel bars were shipped here in large quantities and reexported to SE Asia. Chinese printing and writing paper also enjoyed steady local demand because prices were cheaper than Japanese and European goods.

An exhibition of Chinese stationery and educational supplies was held in the Chinese General Chamber of Commerce Building here during the month. Items on display included fountain pens, pencils, calculating machines, Chinese typewriters, scientific instruments, paper, sports goods and toys. The exhibition was sponsored by the China Sundry Products Export Corporation and most items came from Shanghai, Canton and Tientsin. A new retail shop was opened in Kowloon to handle the sales of cheap leather shoes and other leather goods from China. More local shoe makers will thus be forced out of business in the near future. Cheap cotton yarn from China has already obliged many local mills to cut production of similar goods. The steady influx of cheap Chinese light industrial products is adversely affecting the development of local industries; in spite of low wages

here, local manufacturers are defenceless against the invasion of goods made by slave labourers on the Mainland. China's cut-price exports are probably aimed at weakening Japan's trade position in SE Asia but the side effects on HK are damaging. The trouble is that HK's industries are built with little planning and can be easily wiped out if this dumping is kept up for an extended period.

**Trade with Japan**—Over 50 ships arrived from Japan but imports averaged only about 500 tons per vessel. The volume is much less than at this time last year mainly because reexports of Japanese merchandise to SE Asia dropped sharply since the beginning of this year. Countries such as Thailand, Malaya and Singapore bought more Chinese products on account of the cheap price while Indonesia cut imports of Japanese goods from here because Japan was sending supplies direct to Djakarta under reparations agreement. Dealers here therefore restricted imports to the volume of local consumption. Towards month-end, some dealers ordered fertilizer, metals and chemicals from Japan on account of the revived demand from China but they still refrained from booking heavy supplies because they were uncertain whether or not China would continue to procure these items from here.

Exports totalled about 7,000 tons. Principal items included scrap metals, rattan, beans, sesame and other staples. Demand from Japan for produce was steady throughout the month but interest was centred on a few items and the volume of business was small because local dealers could not get adequate supply to meet the demand.

**Trade with UK**—Steady and regular imports of automobiles, cigarettes, base metals, woollen piecegoods, chemicals, pharmaceuticals, cosmetics, provisions and other consumer goods were maintained throughout the month. Total volume, however, was slightly lower than this time last year. Imports were mostly absorbed by local retailers and factories; reexports to China, Taiwan, Korea and SE Asia were stagnant.

Exports of cotton textiles, gloves, towel, rubber shoes, plastics, torch, ginger, rosin, tea, gallnut and sawn timber totalled about 10,000 tons. Exports of HK products to UK were maintained at a steady level in general but towards month-end, the number of orders from UK for HK cotton cloth dropped slightly not due to the agitation created by Lancashire but on account of the drop in UK's exports of finished products to Africa and other markets.

During the month, Lancashire textilemen and anti-HK politicians in UK continued to urge the Government to adopt definite action to limit cotton imports into Britain. At the same time, they also smeared HK with more groundless charges; a trade union leader there alleged that women labour was extensively used here for night shift work in cotton mills. The truth is that women are specifically prevented by local



legislation from working between 3 p.m. and 7 a.m.

Towards end of the month, Lancashire cotton towns began to organize boycott campaigns against 'Empire-Made' cotton goods. It seems that UK millowners want to choke the growth of HK cotton industry so that the aged and inefficient cotton industry of Lancashire may drag on. On the other hand, increasing number of Lancashire workers now realise that they must work harder to face the competition from HK and other sources instead of wailing over their past glory and blaming HK for the shut-down of cotton mills in UK.

Presenting HK's case to UK, Mr. John O'Connell, in a letter from Hongkong to the Manchester Guardian, pointed out: (1) HK exports of grey cloth represent only 3 per cent of Lancashire's production. (2) Of the total UK imports of grey cloth, only 20 per cent comes from HK; the remainder from India, Pakistan and China. Yet nothing is said about 'sweated' labour conditions in these countries. By contrast with them, HK has a negligible home market and must export grey cloth in order to live because cotton textiles represent 40 per cent of the total exports of the Colony and cotton industry employs 55,000 people directly and 200,000 workers indirectly. (3) If the present agitation succeeds, and HK has to restrict her exports of cloth, then HK will be forced to cut imports from UK which at present total \$41 million a year. (4) The great majority of mills in HK work in 8-hour shifts, not 12 as stated in UK. The exceptions are some small cottage industries which are struggling to keep going. In the larger mills, the working conditions are extremely good and compare favourably with those in UK. (5) If restrictions are imposed, the unemployment here, already serious, may well become chaotic, and to produce unemployment here will not save the Lancashire cotton industry.

Mr. J. D. Clague, Chairman of the HK General Chamber of Commerce, also pointed out: "Back in 1933 Lancashire was already clamouring for government assistance and protection. In 1930, Lancashire was operating over 55 million spindles and 692,000 looms. By 1935 these figures dropped to 42 million and 504,000 respectively while in 1939 only 36 million spindles were operating. Between 1950 and 1957 the spindleage dropped from 29 million to just under 22 million while over the period from 1952 to 1957 the number of looms in operation dropped from 350,000 to 284,000. From these figures it is clear that by far the greater part in the decline of the Lancashire industry took place before HK started spinning cotton in quantity. An even more graphic illustration of this is the fact that in 1938 Lancashire exported 1,400 million square yards of cloth but in 1952, only 700 million square yards in 1952. By comparison with those in other countries, the HK industry is minute. UK has 22 million spindles and 280,000 looms, Japan 9 million spindles and 391,000

looms and India 12 million spindles and 220,000 looms. We have 1/3 million spindles and 10,000 looms. With only 336,000 spindles compared with Lancashire's 22,000,000 it will not help Lancashire fundamentally if our whole industry is closed down."

To investigate local working conditions, London sent a Colonial Office labour adviser, Miss Sheila Ogilvie, to HK. During her stay, Miss Ogilvie held discussions with the Governor, Sir Robert Black, labour officials and leaders of both sides of the industries. She was informed by local industrial leaders that the causes of low wages in this Colony are: (1) the big influx of refugees from China; (2) the dumping of Chinese mainland goods; (3) the decline of exports of HK goods to SE Asia. Local workers have to choose between starvation and low wages while local manufacturers are forced to keep production cost at a minimum on account of the keen competition from Chinese and Japanese products in local as well as overseas markets.

According to reports from London, a Lancashire cotton delegation will soon come here to negotiate an agreement on a limitation of HK cotton textile exports to UK. Local cotton industry is prepared to negotiate a ceiling for export of grey cloth subject to certain important safeguards. Mr. Clague said, "If there must be restrictions in one form or another it is to be hoped they will be based on a fair appraisal of our economic position and a full understanding of the immense problems we are tackling — so far — without any outside assistance."

**Trade with Europe**—Local knitting mills reported steady demand from Europe for gloves and other knitwear. Orders came chiefly from West Germany, Sweden and Belgium. The allegation by Dutch manufacturers that HK is dumping gloves in West Europe in groundless. In many cases, Chinese and Japanese gloves are being sent to Netherlands and other European countries at prices cheaper than HK products. Exports of HK shirts to Europe declined while re-exports of Chinese cotton shirts to Norway, Sweden and other north European countries improved. There were also more orders from Europe for Chinese woodoil, tea, rosin, oilseeds, feather and other staples. Shipments of produce during the month constituted over 50 per cent of total exports to Europe.

Imports came chiefly from Italy, West Germany and Holland; principal items included metals, cotton textiles, rayon goods, office appliances, automobiles, dairy products, wines and provisions, pharmaceuticals, glass, chemicals and paper. The volume of these imports, however, was much less than during the same period last year because reexports of paper to Korea as well as other industrial supplies to SE Asia declined considerably this year. A large number of local dealers ordered a greater variety of staple and durable consumer goods from West Germany, France, and other European countries to substitute imports from US which became more expensive on account of the increased exchange rates

for US dollars. The volume of these imports, however, was small because local consumption is limited.

**Trade with US**—During the first half month, local importers curtailed booking of petroleum products, wheat flour, automobiles, shirts and other wearing apparel, provisions, cosmetics and other consumer goods from US because exchange rates for US dollars advanced sharply on account of the landing of US forces in Lebanon and Turkey. More orders were placed with American suppliers during the second half month but the volume of these indents was not as substantial as last year. Many retail shops reported that American shirts, shoes, sportswear, ladies' apparel, cosmetics and toys were moving very slowly this year. Local demand for luxuries also declined partly on account of the drop in the local purchasing power and partly because smugglers were not as active as they used to be.

Exports of rattan and hardwood furniture, garments, gloves, cotton textiles, plastics, torch, graphite and other HK manufactures to US remained active throughout the month. Local factories, however, are finding orders from US more difficult to handle than before. American importers are insisting on a much higher quality than they used to demand while at the same time paying a lower price. According to an estimate made by a local industrialist who returned from US recently, retail prices of some HK-made goods in US are almost 1,000 per cent higher than original HK export prices. One item was said to cost only 18 US cents fob HK but its retail price in America was US\$2 because American dealers had added to the cost: 98 cents for profit and overhead to the store, 13 cents for brokers' fee, 34 cents for tariff, 16 cents for inland transport and 21 cents for ocean freight. It seems that HK manufacturers should charge higher prices for their exports because many mark-ons in the above list would not be affected by a higher fob HK price.

According to Mr. Bert Prall, a director of the Chicago Association of Commerce and Industry, there are good prospects of selling more HK products in US provided that HK can produce the right kind of goods. He encouraged local manufacturers to participate in next year's (July 2 to 18) Chicago International Fair. Mr. Philip Au of Hongkong is the local representative of the fair.

Government announced during the month that shipments of HK graphite to US must be covered by a comprehensive certificates of origin issued by the Department of Commerce and Industry. Otherwise, shipments will be considered by US as originated from Chinese Mainland or North Korea.

**Trade with Thailand**—Orders from Bangkok during the first half month covered only small lots of structural steels, base metals, metalware, cotton goods, foodstuffs and sundries; Chinese products constituted over 50 per cent of these purchases. Demand from Bang-



kok improved slightly after authorities there had started to allocate American Aid Funds (amounting to about US\$20 million) for various essential imports. The improvement, however, was not impressive because Bangkok procured most supplies direct from Japan and China. Prospects of further increase in exports to Thailand are dull because authorities there may tighten restrictions on imports of cotton yarn to protect the cotton industry in Thailand.

Imports of rice, hide, cattle, groundnut, pea, timber and rubber were curtailed because exchange rate here for Baht remained high making replenishments too expensive.

**Trade with Indonesia** — Shipping services between HK and Indonesia returned to normal but shipments from here to Indonesian ports remained irregular and quiet because Djakarta bought only a few hundred tons of cotton textiles, base metals, paper, chemicals and pharmaceuticals from the local market. Compared with June, July exports to Indonesia were much better. The revived demand, however, was not sustained towards month-end. Even the reduction of freight charges for cargo from here to Indonesian ports did not stimulate the trade because Djakarta did not have sufficient foreign exchange to finance all its imports. The drop in the value of rupiah also made purchases from here too expensive.

Imports of sugar, rattan, groundnut, rubber, sesame, coconut oil and other staples from Indonesia improved because the supply of these items from Indonesian territories outside Java to Djakarta had returned to normal.

**Trade with Malaya** — Most shipping companies reduced freight charges for cargo from here to Singapore and Malaya by 10 per cent. Exports of eggs, garlic, green pea, gypsum, tea, canned goods, metalware, shirts, cotton goods, toys, photo supplies, pharmaceuticals, paints, shoes, wheat flour, provisions and other consumer goods to Singapore and Malaya were active throughout the month because reexports from these two territories to Indonesia were active. Towards month-end, however, exports declined because the shortage of foreign exchange in Indonesia also began to affect Djakarta's purchases from Malaya and Singapore. Merchants in Singapore were already holding several million dollars worth of goods they had ordered for reexports to Indonesia. Unless the Indonesian Government relaxes control over barter trade with Singapore and Malaya, shipments from here to these two destinations will continue to drop. Another cause of the drop in shipments from here to Singapore and Malaya is the ever increasing volume of direct shipments of cotton textiles, cement, vegetables, eggs and other items from China to these markets at prices much cheaper than HK quotations.

According to Singapore reports, China was selling its goods in Malaya at 10 to 40 per cent below the prices for similar HK products. Singapore dealers warned that if HK manufacturers could not re-

duce the price and improve the quality of their goods, they would eventually lose a big portion of the Malayan market to China.

Malay's policy is to get its supplies at the cheapest possible prices. Malayan Commerce and Industry Minister denied the existence of large scale dumping of consumer goods by China on the Malayan market. The Minister, however, admitted that his government always welcomed competition between imports of different countries in Malaya. He also ranted that Malaya was the only country in SE Asia which is not suffering from foreign exchange difficulties and that China could augment her foreign exchange earning by supplying more cheap consumer goods to Malaya.

**Trade with the Philippines** — Exports of cotton yarn, foodstuffs, construction materials, sheet glass, enamelware, hurricane lantern, cosmetics and sundries to Manila were slightly more than during the preceding month because authorities there had allocated US\$125 million for imports during the third quarter. Prospects of further improvement are doubtful because Manila is still buying the bulk of its supplies from US, Japan and Europe. Orders reaching here are mostly for UK manufactures with interest centred on a few items only. Authorities there were also considering to further cut imports of cotton yarn from here in order to protect the cotton industry in the Philippines.

Registered exports to Manila this year are still lower than in 1957 chiefly because authorities there still maintain the ban on the entry of communist goods, particularly merchandise from the Mainland. On the other hand, the illicit flow of large quantities of Chinese herb medicines and other goods to Manila continued. Philippines customs officials recently admitted that a brisk trade in goods from China had been going on there for years. They alleged that the goods went there from HK and explained that the serious shortage of technically qualified customs personnel to examine and classify the origin of goods could be one reason why prohibited items were allowed entry.

**Trade with Korea** — With the exception of the purchase of a large lot of woollen yarn from here, orders from Seoul for pharmaceuticals, paper, toys, garments, tea, milk products, watches and herb medicines covered only insignificant quantities. Importers there no longer considered HK as a main source of supply. Dealers here found that orders from Seoul were difficult to accept on account of low buying offers particularly those for industrial supplies.

**Trade with Taiwan** — Exports to Taiwan were limited to small lots of metals, paper, beans, chemicals, pharmaceuticals and other essential supplies. Importers in Taipei considered replenishments from HK too high on account of the new exchange rates there. The lack of foreign exchange funds in Taipei will further restrict purchases from here to a minimum.

Imports from Taiwan remained steady. Taiwan sugar, camphor products, citronella oil, feather, live hogs and other supplies continued to enjoy steady local demand but keen competition from similar Chinese products kept prices at a very low level and handicapped re-exports to SE Asia and Europe. Consequently, imports from Taiwan this year have declined considerably when compared with the 1957 volume.

**Trade with Cambodia** — Imports from Cambodia dropped sharply chiefly due to the curtailment of rice shipments. Imports of live hogs, beans, oilseeds, maize and other staples were also limited to small quantities. In return, Phnompenh bought much less from here than during the preceding month; there were only orders for insignificant lots of sugar, torch, cotton textiles, garlic and sundry goods. A number of local dealers anticipated that demand from Phnompenh for paper, enamelware, cotton goods and sundry items might improve in the near future because authorities there had recently relaxed controls over imports financed from self-provided foreign exchange. The prospects, however, are still very dark because Phnompenh is importing the bulk of its consumer goods direct from China and obtaining industrial supplies and equipment direct from France, Japan and other manufacturing countries instead of through HK.

**Trade with Laos** — Vientiane bought only small lots of structural steels and cotton textiles from here. Importers there could not get sufficient foreign exchange from the Government to pay for various imports. Laos is dependent on foreign aid from US and partly from France for imports from Free World countries. If such aid is suspended, Vientiane will be left practically without funds for imports from HK, Japan and other non-communist countries.

**Trade with Vietnam** — Trade with North Vietnam was quiet throughout the month. Cargo movements between HK and South Vietnam were also stagnant; exports were limited to small consignments of foodstuffs, medicinal herbs, fruits, metalware and sundry goods while imports of beans, scrap metals and sundry provisions were insignificant.

**Trade with Burma** — Orders from Rangoon covered only a few hundred tons of HK wheat flour, enamelware, torch batteries, rubber goods and Chinese industrial chemicals and foodstuffs. There was no significant improvement in exports to that market although Rangoon had relaxed import controls on a large number of essentials such as cotton textiles, metalware and canned food; traders there procured the bulk of their imports from China direct.

**Trade with Australia** — Demand from Australia for HK manufactures remained selective covering chiefly sawn timber, cotton textiles, plastics, gloves and garments. Purchase of produce from here slowed down possibly due to the improved direct trade between China and Australia. Imports of frozen meat, wheat flour, dairy products, wooltops, fruits and provisions remained steady throughout the month.



**Trade with Africa**—Exports to East Africa declined after authorities there had imposed restrictions on imports financed from self-provided foreign exchange. Shipments to South Africa were adversely affected by the increase in import taxed there on a large number of items. Demands from British West Africa, on the other hand, improved.

HK manufactures still constitute the bulk of the consignments to African markets. Principal items include matches, torch, enamelware, cotton textiles and knitwear, rayon products, shirts, plastics and foodstuffs. Competition from Chinese and Japanese products in African markets is also intensifying although the pressure is not yet as strong as in SE Asian territories.

**Trade with Canada**—The Canadian Government Trade Commissioner in HK, Mr. C. M. Forsyth-Smith stated, before his departure on a 7-month home leave, that during his tour in Canada he would endeavour to introduce Canadians to HK traders and to provide information about HK market to the Canadian traders.

During the month Canada purchased a number of Chinese products from here including wire nails, cotton textiles, rosin and woodoil. Demand for HK rubber footwear revived; one firm here got an order for 30,000 dozen pairs. Other HK manufactures favoured by Canada included gloves, wood and rattan furniture, plastics and metalware.

#### COMMODITY MARKETS

**Produce**—Japan increased purchases of wheat bran, soya bean, sesame, cassia, aniseed and hop seed from the local market but the improvement was not very impressive because Peking trade agents here openly rejected orders which were placed by local dealers for shipments to Japan thus limiting the volume of trade to available stocks on the market. Buying offers from Japan were also very low while replenishment costs remained high.

Europe, on the other hand, provided better demand for sesame, groundnut, aniseed star, castor seed, sunflower seed, cassia oil, aniseed oil, teaseed oil, wood-oil, citronella oil, rosin, bitter almond, feather, camphor products and menthol crystal; orders came chiefly from West Germany, France, Netherlands, and Scandinavian countries and covered forwards.

Britain, however, bought only a few items from the local market because direct trade between UK and China was very active; large quantities of Chinese egg products, soya beans, rosin, turpentine, furs, carpets, canned meat, straw hats and other products were bought direct from China.

The local produce market was also kept active by demand from Singapore

and Malaya for aniseed star, garlic, gypsum, tea; from Ceylon for chilli; from Australia for woodoil; and from India for cassia, realgar, galangal. Supply of some produce such as wheat bran, soya beans and woodoil from China improved but consignments of other popular items were still restricted to inadequate quantities. Imports of oilseeds and other staples from SE Asia were handicapped by increased cost which was brought about by Japan's increased volume of direct purchases from these countries.

**Metals**—China was the No. 1 buyer on the local market; purchases included 2,000 tons of steel plate worth about \$1.5 million; 300,000 feet of iron pipes, \$200,000; and 2,000 tons of scrap metals, \$600,000. Prices here were firm but registered no gains because buying offers were kept low. On the other hand, China shipped here substantial quantities of lead wire and wire nails which enjoyed strong local and reexport demand. There were also round bars from Canton but quantities were small.

Demand from SE Asia, chiefly from Thailand, covered structural steels, iron pipes, wire nails, wire, galvanized iron sheets and steel plates; quantities involved, however, were insignificant. The undertone of the market was very firm because local stocks were not heavy while replenishment costs remained high. Local demand for structural steels and base metals continued steady.

**Paper**—On account of low stocks, local dealers booked small lots of duplex board, white sulphite, bond, kraft, glassine, ivory board, mechanical printing and cellophane from Europe, UK and Japan. Replenishments of Chinese printing and writing paper were also booked but quantities were restricted because Canton was still unable to supply the local market with unlimited quantities of popular items.

Korea used to be the No. 1 buyer but during the month purchases from here were limited to small quantities of sulphite, cellophane, glassine and tissue. Some dealers stocked up aluminum foil in anticipation of demand from Korea but towards month-end there was still no order for this item from Seoul. Taiwan, however, provided unexpected demand for a number of items including wood-free printing, manifold, bond, cellophane and art printing; quantities involved were small. Thailand was the best customer from SE Asia with purchases covering mechanical printing, mg caps, bond and duplex board. Indonesia was interested in tissue, cellophane, glassine, aluminum foil and cigarette paper but the demand was not sustained towards month-end. Local demand for printing, writing and packing paper remained steady throughout the month.

**Industrial Chemicals**—During first half month, China shipped here large quantities of caustic soda, sodium nitrate, sodium silicate, potassium carbonate, calcium carbonate, lithopone, red phosphorus, glycerine, lithopone and many other chemicals. Towards month-end, however, consignments of some of these items were curtailed. China even

took back some items such as glycerine and sodium nitrate at prices higher than original cif HK prices from Canton. There were also orders from Shanghai and other industrial centres on the Mainland for citric acid, tartaric acid, bronze powder, gum copal and gum arabic; these transactions, however, were concluded with local agents of European manufacturers covering direct shipments to China.

Demand from SE Asia was selective covering only some caustic soda, calcium hypochlorite and soda ash. Taiwan was interested in petrolatum, shellac, lithopone, gum arabic, gum copal and lactein but most transactions fell through because buying offers were too low. Local demand for a large number of Chinese chemicals was retained but the volume of consumption was too low to stimulate the market.

**Pharmaceuticals**—The market was kept active by demand from SE Asia, Korea and Taiwan for penicillin preparations, potassium iodide, dihydro-streptomycin, sodium benzoate, lysol solution, aspirin, quinine, saccharum lactose, saccharine crystal, amidopyrin, vitamin B1, santonin crystal, gum acacia and caffeine alkaloid. The volume of trade, however, was small because in most cases there was no adequate stock to meet the demand while low buying offers discouraged dealers from booking heavy supplies from UK, Japan, US and Europe.

China, therefore, ordered forward direct deliveries of sulfadiazine, aspirin, ascorbic acid and vitamin B1 powders from Europe through manufacturers' local agents.

**Cotton Yarn**—Spot transactions in HK yarn were limited to small lots. The majority of small weavers and knitters here curtailed purchases of cotton yarn on account of the decline in exports of their products. Larger weavers and knitters retained steady demand from UK and other buyers but they usually have their own spinning departments. Prices remained firm throughout the month because demand from Laos, Indonesia and Thailand revived.

Pakistan brands were weak at the beginning of the month; coarse yarn was particularly sluggish and registered price dips under the pressure of heavy stock of Indian yarn. Japanese fine yarn was steady on firm cost and curtailed imports. Chinese yarn was dumped on the local market forcing local spinners to suspend production of similar counts.

(To be Concluded)